AR54

Winspear Business Reference Room
University of Alberta
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Edmonton, Alberta T6G 2R6

AEC

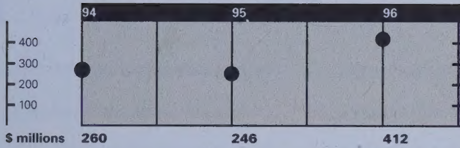
1996 Alberta Energy Company Ltd. Annual Report To Shareholders

Alberta Energy Company Ltd. has a stock market value exceeding Cdn $3.3 billion. Its 111 million Common Shares trade as AEC on major exchanges in Canada and as AOG on the New York Stock Exchange. The shares are widely held with no major controlling shareholder. Focused and growing, AEC, one of the top five publicly traded upstream exploration and production companies in Canada, has additional midstream investments in transportation, gas storage and processing, is the largest transporter of oil within Alberta, and until 1993, had the government of Alberta as the controlling shareholder. The Company then embarked on a major business transition, disposing of non-core assets including coal, fertilizers and forest products to focus solely on oil and gas. In January 1996, AEC merged with Conwest Exploration and set in motion a major reorganization for expansion and growth.

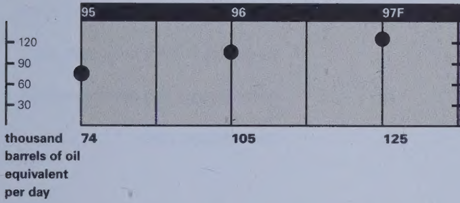
capturing opportunities

In the interest of providing AEC shareholders and potential investors with information regarding the Company, including management's assessment of the Company's future plans and operations, certain statements throughout this Report are 'forward-looking statements', within the meaning of Section 21E of the United States Securities Exchange Act of 1934, as amended, and represent the Company's internal projections, expectations or beliefs concerning, among other things, future operating results and various components thereof or the Company's future economic performance.

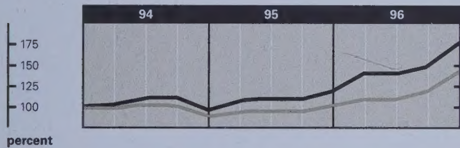
The projections, estimates and beliefs contained in such forward-looking statements necessarily involve known and unknown risks and uncertainties which may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things: volatility of oil and gas prices; product supply and demand; market competition; risks inherent in the Company's domestic and foreign oil and gas operations, imprecision of reserves estimates; the Company's ability to replace and expand oil and gas reserves; the Company's ability to generate sufficient cash flow from operations to meet its current and future obligations; the Company's ability to access external sources of debt and equity capital, and such other risks and uncertainties described from time to time in the Company's reports and filings with the Canadian securities authorities and the U.S. Securities and Exchange Commission. Accordingly, shareholders and potential investors are cautioned that events or circumstances could cause actual results to differ materially from those predicted.



Cash flow from continuing operations grew 67 percent as a result of substantial oil and gas production growth in 1996.



Production growth – total oil and gas production is forecast to grow 19 percent in 1997.



Stock price performance – 21 percent compound growth for AEC shareholders over three years.

— AEC — TSE Producers Index

financial	**1996**	**1995**	**1994**
Cash flow from operations ($ millions)	**411.9**	270.7	294.8
$ per share – basic	**3.93**	3.61	4.07
$ per share – fully diluted	**3.82**	3.51	3.88
Net earnings ($ millions)	**68.0**	110.2	100.5
$ per share – basic	**0.65**	1.47	1.36
$ per share – fully diluted	**0.65**	1.44	1.34
Year-end long-term debt ($ millions)	**968.3**	384.4	561.8
Exploration & production	**367.0**	153.5	232.8
Transportation, storage & processing	**601.3**	230.9	229.6
Debt to equity ratio – corporate	**32:68**	25:75	35:65
Exploration & production	**16:84**	13:87	21:79
Transportation, storage & processing	**89:11**	64:36	64:36
Debt to cash flow ratio – exploration & production (times)	**1.0**	0.8	1.2

operating	**1996**	**1995**	**1994**
Produced natural gas sales (million cubic feet per day)	**515**	320	345
Total liquid sales (barrels per day)	**53,155**	42,153	36,820
Conventional oil & natural gas liquids sales (barrels per day)	**25,559**	14,330	10,538
Syncrude sales (barrels per day)	**27,596**	27,823	26,282
Conventional reserve additions, proven plus probable (million barrels of oil equivalent, 10:1)	**68.2**	28.9	43.6

"I can only describe 1996 as a watershed year in AEC's history, a year of substantial change and progress in virtually every respect."

JANUARY

Conwest Exploration shareholders accept AEC merger offer triggering integration of two major oil and gas companies.

FEBRUARY – MAY

Merger and reorganization into business units underway amid Company's most active capital investment program; strengthened results-based incentives; employees participate in 'corporate draft' and policy reviews and development of new strategic plan.

Fellow Shareholders,

I can only describe 1996 as a watershed year in AEC's history, a year of substantial change and progress in virtually every respect. The $1.1 billion friendly merger with Conwest Exploration in January, the transformation of the Company into a decentralized business unit based organization, AEC's largest-ever exploration and development program, the extraordinary progress of the innovative Express Pipeline Project and the implementation of a new, high-growth, high-performance strategic plan have created one of Canada's strongest, highest-potential oil and gas companies. The performance highlights throughout this report are the first milestones on a new journey for AEC. The success of our strategic plan will require:

→ a sustainable growth rate of at least 10 percent with a 'stretch target' of 15 percent, without reliance on commodity price increases

→ a high-performance, entrepreneurial workforce of people stretching to excel in their fields, along with a compensation system that rewards results

→ the maintenance of solid financial ratios to finance growth plans and to capitalize on new opportunities

→ maximizing the potential of the Company's exceptionally strong, high-quality assets

→ investment decisions based on realistic, full-cycle economics, rather than short-term cash flow returns.

"AEC seeks to provide superior growth in shareholder returns through the combined results of seven high-growth, high-performance business units."

AEC's new strategic plan also calls for significant increases in cost effectiveness and efficiency. General and administrative (G&A) expenses per barrel of oil equivalent decreased 42 percent in 1996, and are expected to drop further in 1997. AEC's operating-costs are among the lowest in the industry, making the combined G&A and operating expenses competitive with other high-performance players in the industry.

In a nutshell, AEC seeks to provide superior growth in shareholder returns through the combined results of seven high-growth, high-performance business units, operating in a manner where the corporate office adds strength and value, rather than bureaucracy. We believe this organizational structure gives AEC people a clarity of purpose and an opportunity to excel, while at the same time, retaining the strengths of a larger corporation.

JUNE

Board of Directors approves new high-performance growth strategy incorporating expanded investment levels and 'stretch targets'.

JULY

First cross-border Common Share offering oversubscribed; $266 million raised; 11 million shares issued.

AUGUST

All regulatory approvals now received and construction commences on the Express Pipeline, a 785-mile, 172,000 barrels per day oil export pipeline from northeastern Alberta to east-central Wyoming.

DECEMBER

Board of Directors approves 1997 capital budget program exceeding $700 million; 172 employees participate in Flow-through Common Share Offering, invest $8 million.

This report sets out the key elements of AEC's new exploration and production (E&P) business units. AEC East and AEC West would each rank as high-growth, senior oil and gas companies in an industry peer comparison. AEC North is a growing intermediate, while AEC Syncrude contains one of our company's most prized light oil producing assets. AEC International is a new business unit, but has already acquired large tracts of international exploration properties and has just begun drilling. The Pipelines and Gas Processing Business Unit has had an extraordinary year with the innovative 50 percent-owned Express/Platte pipeline project and the completion of a 40 percent-owned natural gas liquids (NGLs) extraction plant. The AECO C HUB and Market Centre is North America's largest non-utility gas storage facility – another example of AEC's unique entrepreneurship and innovation.

Every successful company establishes a 'formula' for success which is constantly reviewed and improved. The new AEC formula for success in the E&P business includes:

→ maintaining or acquiring dominant positions in key operating areas through high working interests in large exploration land blocks

→ controlling and operating gathering and processing infrastructure

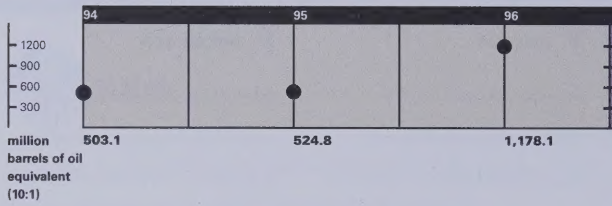
→ quality work utilizing the latest practical technology by people who know the operating area better than our competitors.

A great example of this formula in action is AEC's position in Alberta's West Peace River Arch, where the combined Conwest/AEC assets provide a prevalent exploration, gathering and processing position in 4,000 square miles of one of Alberta's hottest areas. Other examples include AEC's 96 percent average working interest in two military blocks totalling 3,000 square miles and the northern Alberta shallow gas play which involves 2,000 square miles with an average 89 percent working interest.

"Every successful company establishes a 'formula' for success which is constantly reviewed and improved."

But the AEC formula goes beyond this clear, effective exploration and production strategy. AEC has some unique midstream assets which not only add value to our upstream business, but also generate a growing, solid, non-commodity, price-independent cash flow stream.

Combined, the business units create a company with a stock market float that is the 10th largest of independent upstream oil and gas producers worldwide, a company that



Total reserves grew dramatically in 1996 due to the Conwest merger, drilling success and recognition of probable reserves at Syncrude.

"I am very proud to say that the people in the new teams throughout AEC have delivered substantial increases in shareholder value while effecting this major transformation."

ranks in the top five of publicly-traded Canadian upstream oil and gas companies in total oil and gas reserves. Even though the stock price grew 49 percent during 1996, I believe AEC shares continue to offer exceptional underlying value compared with the stock price. The reasons for this include an overall reserve life that is greater than the industry average and midstream assets which are exceptionally long life and which are likely to increase in value over time.

The merger and transformation of a company AEC's size is a very major undertaking. However, even in times of major change, shareholders are not inclined to wait for results at some future date. I am very proud to say that the people in the new teams throughout AEC have delivered substantial increases in shareholder value while effecting this major transformation. Highlights of the last 12 months include:

→ record cash flow from operations of $412 million

→ investment of over $2 billion in capital projects including the merger with Conwest

→ the largest-ever exploration and development program

→ the unprecedented Express pipeline project

→ record production of 515 million cubic feet of gas per day and 53,155 barrels of liquids per day

→ the successful commissioning of the new state-of-the-art Sexsmith Sour Gas and Liquids Processing Plant

→ the addition of a new Sexsmith Sweet Processing Plant

→ the new gas production facility at Joan

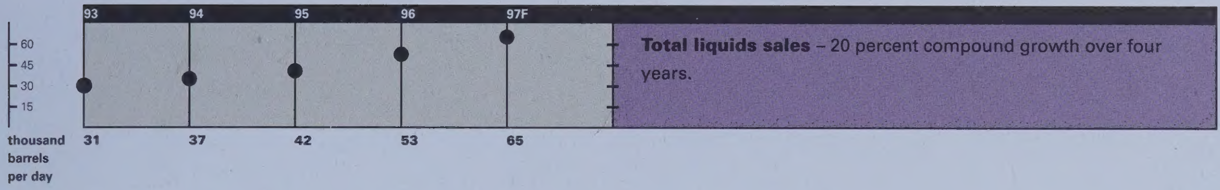
→ major new heavy oil production facilities at Suffield

→ further expansion of AECO C HUB storage

→ the sale of AEC Power, a milestone which marked the completion of AEC's program of disposition of non-core assets

→ the successful sale of nearly all the former Conwest non-core assets for a price equal to, or greater than, the amount estimated at the time of the merger.

Grassroots exploration and development drilling in 1996 contributed 95 percent of the 68.2 million barrels of oil equivalent of proven and probable reserve additions, which is 246 percent of conventional production. Proven and probable finding and development costs were $6.51 per barrel of oil equivalent. This includes $0.81 invested in a 39 percent increase in AEC's undeveloped North American exploration



land base to 4.7 million acres. Proven and probable conventional oil and gas reserves have now passed the 3 trillion cubic feet and 100 million barrels milestones, not including AEC Syncrude's huge reserves.

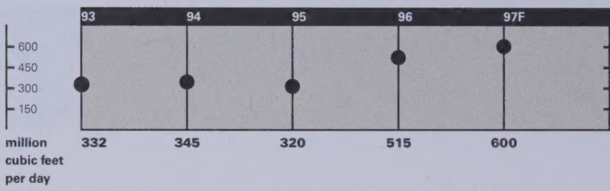
Reserves are the foundation of an oil and gas company. It is important to note that AEC's entire conventional reserves base was evaluated and independently estimated by engineering firms commonly believed by many in the oil and gas industry to be Canada's two most conservative reserve evaluators: McDaniel & Associates Consultants Ltd. and Gilbert Laustsen Jung Associates Ltd. These evaluators were asked to conduct a thorough review of the combined reserves base effective at the time of the merger. This independent evaluation resulted in a very small reduction in the reserves base of the merged company.

This year will be another year of applying our high-investment, high-growth strategy with a capital budget exceeding $700 million. The Company is in excellent financial position to fund growth. The debt to equity ratio of the E&P group is 16:84. Our midstream group, which we call Transportation, Storage and Processing (TSP) is, as this annual report goes to press, filing a preliminary prospectus for the new AEC Pipelines, L.P. This will bring in approximately $300 million of growth capital for the TSP Business Units, but will also have another benefit. The trading of Partnership units in AEC's pipeline assets will provide an easily-understood way for investors to value our pipeline assets, and this should be positive for the value of AEC's stock. AEC intends to hold 70 percent of the Partnership following the issue.

In mid 1996, AEC issued 11 million Common Shares, raising $266 million of capital intended for the E&P group. This oversubscribed, cross-border Common Share issue broke new ground. Capitalizing on our New York Stock Exchange listing and developing a new method of structuring cross-border issues allowed us to achieve our target of 60 percent Canadian and 40 percent U.S. subscription.

"The Company is in excellent financial position to fund growth."

The merger of AEC and Conwest brought together excellent assets with high-growth potential. The leadership teams of the two companies recognized that the potential of the merged company lay in the combined talents of employees. The merger with Conwest was done differently, I believe, than any other merger in our industry. The first step was to recognize that we were being presented with a great oppor-



Natural gas sales – 16 percent compound growth over four years.

The foundation for meeting these challenges is our exceptionally solid base of exploration land, long-life reserves, quality midstream assets and a wide array of opportunities for profitable investment.

tunity - the opportunity to recreate a company by examining all the jobs to be done, and striving to place the very best person in each of those jobs, the opportunity to change and improve, to fundamentally reassess both what we do and how we do it – and to recognize that our future success will be based upon just how well this can be accomplished.

I believe we have brought together, to work on behalf of shareholders, a group of people, also all shareholders, dedicated to teamwork, technical and business excellence – people encouraged to make their own decisions and take ownership of the results within an environment of strong personal values and mutual respect. This is part of our common vision for future success.

Much of the work needed to create a high-performance, high-growth company has been accomplished. However, there is no shortage of challenges. Strong commodity prices and ready access to capital markets have created an overheated situation. Exploration land and assets are expensive. Drilling rigs and other services are at full capacity. We will need to develop and add new, high-quality employees to our current strong team, and each of us will have to keep getting better at what we do. The foundation for meeting these challenges is our exceptionally solid base of exploration land, long-life reserves, quality midstream assets and a wide array of opportunities for profitable investment.

Three directors will be leaving our Board at the time of our annual meeting. On behalf of shareholders, directors and employees, I thank founding Director, John Maybin, for his counsel and many contributions over the decades. He retires from the Board in April. I also thank Mrs. Joan Donald and Mr. Martin Connell for their valued advice; neither will be seeking re-election at the April 9 annual meeting.

I feel privileged and most fortunate to have the opportunity to be working with my exceptional management team, directors and all of the employees of AEC, as we pursue our goal of building one of the outstanding, high-performance companies in our industry.

Gwyn Morgan, President
and Chief Executive Officer

February 14, 1997

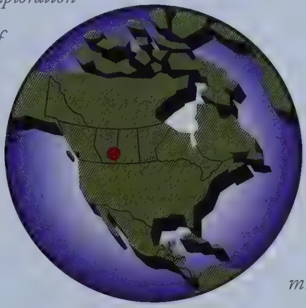
Semi-autonomous, competitive business units, supported by a small corporate group, provide a foundation for AEC's success in domestic and international exploration, production, transportation, storage, gas processing and hub services. While quality assets are fundamental to the successes profiled in the next pages, the effective unleashing of the efforts of tal-

one strong company 7 engines of growth

ented and capable people provides fuel for these engines of growth. Reorganization into business units, rather than the traditional 'functional' corporation, is inherent to AEC's new high-growth, high-performance business strategy. The friendly merger with Conwest Exploration was completed on January 10, 1996 and these business units were inaugurated May 1, 1996.

CAPTURING OPPORTUNITIES

AEC East



Anchored by the Company's cost-efficient shallow natural gas properties, AEC East is increasingly becoming a major heavy oil exploration and production centre. Proven and probable natural gas reserves are 1.2 trillion cubic feet, with 1997 production targets increasing to 270 million cubic feet per day. Proven and probable oil reserves are 42 million barrels, and 1997 conventional oil is targeted to double to 15,000 barrels per day. The unexplored land base comprises 1.2 million net acres and 200 wells are planned in 1997.

AEC will pursue production and reserves growth targets through relatively low-risk exploitation of 3,000 square miles in large contiguous land blocks at Primrose and Suffield, two of Canada's military training ranges. AEC East has also initiated exploration programs on both Suffield and Primrose and is actively acquiring exploration land outside of the military ranges. The Business Unit's strategic advantages include high working interests (97 percent Primrose and 94 percent Suffield), low operating costs, low royalties and well-developed infrastructures on each of these major properties.

In addition to its shallow gas production centres on these active military ranges, AEC East is applying recently developed extraction technologies to the aggressive pursuit of attractive heavy oil opportunities in the Plains area of Alberta. Examples include Frog Lake and Suffield where progressive cavity pumping systems and horizontal drilling enable commercial recovery.

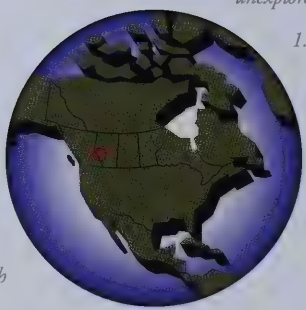
More than half of AEC East's 1997 capital budget of $150 million is directed to heavy oil and bitumen, including the Steam Assisted Gravity Drainage recovery pilot project, which offers commercial potential for adding more than 100 million barrels of recoverable heavy oil reserves.

CAPTURING OPPORTUNITIES

The value of integrating people and assets through the 1996 merger with Conwest is best illustrated by AEC West, now a dominant force along the west edge of the Western Canadian Sedimentary Basin – from northeast British Columbia through western Alberta, south to the Blackfeet Reservation in Montana. Alberta's West Peace River Arch (WPRA) is the most industry-intensive region of the Basin, and AEC West has a dominant exploration land, reserves, and gas gathering and processing position in that region.

AEC West's proven and probable natural gas reserves are 1.5 trillion cubic feet, with 1997 production targets increasing 33 percent to 305 million cubic feet per day. Proven and probable oil and natural gas liquids reserves are 59 million barrels, with 1997 liquids production rates targeted at 14,200 barrels per day. The unexplored land base comprises 1.8 million net acres.

AEC West



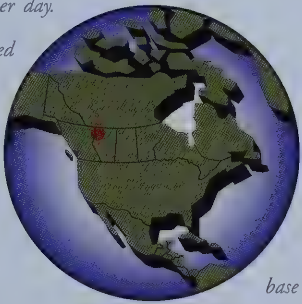
AEC West's growth strategy includes continuing WPRA development of the Hythe/Sexsmith/Valhalla/Knopcik region, expanding the liquids-rich sour gas capacity of the Hythe Plant, and targeting deep, multi-zone gas prospects along the Foothills of the Rocky Mountains. This Business Unit's strategic advantages include a major presence in several regions through large, concentrated landholdings with multi-zone rights, the largest production and gas processing capability in the WPRA, and a New Ventures Group with a mandate to identify as many as 10 high-impact exploration plays each year.

Sixty percent of AEC West's 1997 capital expenditures budget of $230 million is allocated to land acquisition, seismic and drilling of 105 exploration wells; the balance will be used to expand the Hythe Plant and develop producing properties.


FRASER

CAPTURING OPPORTUNITIES

AEC North



The Company's newest western Canadian exploration and production region targets large, relatively untapped shallow gas and light oil reserves. The East Peace River Arch (EPRA) represents the Company's principal conventional light oil area. The Northwest Shallow Gas region is developing as another core gas production area, while Tommy Lakes will be AEC's first producing property in British Columbia. Deeper exploration targets in the North Peace River Arch and British Columbia also are being developed. ⊕ *Proven and probable natural gas reserves are 370 billion cubic feet, with 1997 production targets doubling to 60 million cubic feet per day. Proven and probable oil reserves are 8.2 million barrels; 1997 liquids production is projected at 5,000 barrels per day. The unexplored land base comprises 1.6 million net acres. The 1997 capital budget of $100 million targets production facilities as well as 100 wells. Approximately 70 percent will be gas wells, primarily in the Bluesky formation at Boyer, Joan, Panny and surrounding areas where AEC has a pivotal land position. About 15 oil wells will be drilled in the EPRA.* ⊕ *In an effort to achieve its growth objectives, the team will continue to assemble large blocks of land and apply AEC's extensive 20-year experience in shallow gas development and winter drilling. Several Northwest Shallow Gas Production Centres will be created. Exploration for light oil continues in the EPRA, where oil is currently produced from Ogston, Red Earth, Trout and Evi.*

CAPTURING OPPORTUNITIES

AEC  **Syncrude**

Syncrude is the world's largest producer of synthetic oil. Annual production is the equivalent of approximately 11 percent of Canada's oil needs. AEC is the second-largest Syncrude owner.

In addition to AEC's 13.75 percent ownership interest, AEC holds a six percent gross overriding royalty on another 6.25 percent Syncrude interest. AEC also owns and operates the Alberta Oil Sands Pipeline which transports all of Syncrude's daily output to Edmonton.

AEC's share of Syncrude's 1996 daily production was 27,600 barrels per day, approximately half of AEC's liquids production. The Company's share of Syncrude's proven syhthetic oil reserves is 269 million barrels, with 490 million barrels of additional probable reserves.

Oil sands are surface mined. The bitumen is extracted from the sand and is then upgraded through a refining process to produce a light, sweet crude oil. Both mining and refining processes have annually demonstrated improved operating efficiencies, reducing the cost per barrel through increased production and application of new technology.

Recently, a new era of oil sands and heavy oil development in northeast Alberta has been advanced by stable commodity prices and the introduction of new, industry-wide fiscal regimes from the Alberta and Canadian governments. Syncrude is especially well positioned for long-term growth with its excellent work force and management team, infrastructure, huge oil reserves and commitment to developing new technology.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CAPTURING OPPORTUNITIES

AEC International

AEC's strategy is to invest approximately 10 percent of its exploration and development capital internationally.

The Company's first international investment was in Argentina. The initial focus has concentrated on land assembly to control four large blocks, 452,000 net acres, of virtually unexplored lands which are complemented by long tenure and attractive tax and royalty regimes.

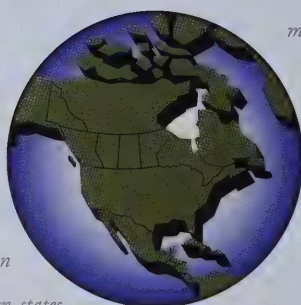
The Company also operates a 280,000 acre exploration licence in northern Trinidad in which it owns a 25 percent working interest. A 180-mile seismic program is currently being conducted over this acreage.

AEC's experience operating on military ranges in eastern Alberta earned the Company an exploration option on 2.2 million net acres of onshore exploration land controlled by the military in Thailand. High-resolution aero-magnetic and gravity surveys are being conducted on these lands.

In addition, AEC is assessing international opportunities in proven, productive, hydrocarbon basins which meet AEC's investment criteria and fit with the Company's overall strategy.

Proven and probable reserves are 3.3 million barrels of oil equivalent, with a 1997 production target of 2,300 barrels per day. AEC International's capital exploration budget of $40 million includes drilling 12 wells, all in Argentina.

CAPTURING OPPORTUNITIES

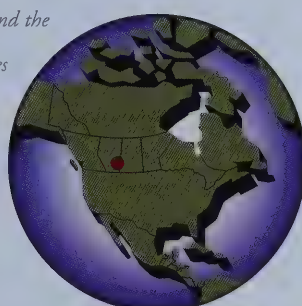
Pipelines and  Gas Processing

AEC Pipelines, the largest transporter of oil within Alberta, provides a reliable source of cash flow and earnings. Its growth strategy is to build on entrepreneurial, non-regulated, non-utility investments in the midstream sector of the oil and gas industry. Revenues from AEC's major investments are based on long-term contracts. ⊕ Key investments are the wholly-owned Alberta Oil Sands Pipeline, serving Syncrude, and the Cold Lake Pipeline, serving heavy oil producers in northeast Alberta. AEC has a 50 percent interest in the recently commissioned Express/Platte system which will deliver varied types of Canadian crude oils to major markets in the U.S. Rocky Mountain and mid-western states. The Company also has smaller ownership interests in three other oil, gas and natural gas liquids pipelines in North America. ⊕ The financial restructuring of Pipelines into a Limited Partnership is the latest step in AEC's corporate reorganization. This recently announced initiative will allow investors to independently place a market value on AEC's pipeline assets, and facilitate access to public sources of capital to finance growth opportunities. ⊕ This Business Unit holds interests in two natural gas liquids extraction plants: a 40 percent interest in a new plant at Empress, Alberta, which started up in 1996, and a quarter-interest in another gas processing facility at Empress through Pan-Alberta Resources Inc.


F R A S E R

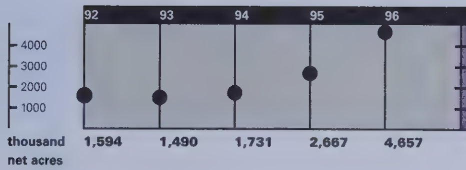
CAPTURING OPPORTUNITIES

Storage and Hub Services



Another part of AEC's non-utility, entrepreneurial mid-stream investments is the AECO C HUB and Market Centre operated by the Storage and Hub Services Business Unit. This Hub is the largest independent natural gas storage facility in North America and serves as the main Canadian reference point for spot gas prices. The Hub is located at Suffield in southeast Alberta, adjacent to the province's major gas export pipelines. Storage capacity is 93 billion cubic feet, with peak daily withdrawal capacity of up to 1.8 billion cubic feet, which represents about 15 percent of Alberta's winter peak gas production capacity. ⊕ *The strategic advantage of storage is the value AEC gains in the efficient management of year-round field gas production, and the higher prices available during colder seasons. Storage also enables the Company to engage in buy low-sell high gas trading strategies. There is additional value through a cash flow stream from third-party storage leasing and Hub Services programs. The majority of the AECO C storage capacity is contracted to producers, marketers and other parties under contract terms that range from one to 20 years. The Hub also provides a number of innovative short-term storage services and the unique HUB-To-HUB™ service. This trading link facilitates for customers the immediate delivery of natural gas inventories between AECO C and another major storage facility in eastern Canada.* ⊕ *That portion of the storage facility's capacity which is not contracted to third parties is used directly by AEC.*

AEC's strategy is to be one of the most dominant companies in our operating areas. Our asset base is characterized by large, concentrated landholdings, high ownership interests and control of producing facilities.



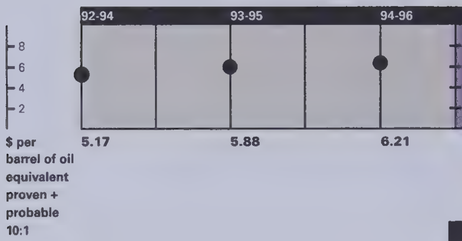
Exploration acreage, Canada and northern U.S. – AEC's expanded exploration land base is one of the largest among Canadian companies.

Exploration & Production Operations

"AEC...ranks in the top five of the publicly-traded Canadian upstream oil and gas companies in total oil and gas reserves...this includes an overall reserve life that is greater than the industry average..."

AEC's Exploration and Production (E&P) activities are organized into business units according to the operating or exploration expertise required in each geographic region. AEC East and AEC West each have an asset base that would rank them as a senior oil and gas producer, while AEC North would rank as a growing intermediate. All business units operate with a high degree of autonomy, accountable for financial, production growth, cost and investment value-added targets. Each business unit follows the 'AEC Formula' with the goal of gaining competitive advantage. That 'formula' includes control of large contiguous land blocks and production facilities, high working interests and operatorship, minimizing operating costs and achieving satisfactory economic returns over the entire exploration and production cycle. An equally important factor in the 'formula' is the application of superior technical and business expertise by creating a learning and growth environment for employees. Through these business units, AEC shareholders obtain exposure to a broad spectrum of potentially profitable E&P activities ranging from heavy to conventional to synthetic oil, to natural gas and natural gas liquids. Domestic activity focuses on the Western Canadian Sedimentary Basin and the Williston Basin in Saskatchewan and North Dakota. International exploration activities are in Argentina, Thailand and Trinidad.

Despite the 1996 transformation into a decentralized, business unit-based organization, the Company conducted its largest-ever E&P program in western Canada. Conventional reserves additions totalled 68.2 million barrels of oil equivalent, proven and probable, 246 percent



Finding and development costs, three year average – AEC's finding and development costs are very competitive.

of production. Gas sales increased 61 percent to 515 million cubic feet per day and total liquids sales grew 26 percent to 53,155 barrels per day.

The components of our 1996 finding and development costs are detailed in the table below. They were higher than our long-term 'stretch targets', due mainly to very large increases in AEC's land base and large facility development expenditures associated with rapidly increasing production. Major production facilities were completed at Hythe, Sexsmith, Suffield and Joan for a total investment of $123 million. A record 393 net wells were drilled with an overall success rate of 84 percent. AEC invested $71 million, a 128 percent increase from 1995, to purchase 1.5 million acres of exploration land. Year-end North American exploration acreage, including Conwest lands, totalled 4.7 million net acres, up from 2.7 million net acres at year-end 1995. The benefits of this strategy have become apparent with the increase in land costs already evident in 1997. This has positioned the exploration program for a 15 percent increase in drilling activity for 1997.

finding and development costs – western Canada →

($ per barrel of oil equivalent)

Proven plus probable	**1996**	**3 year average 1994 – 1996**
Ongoing exploration and development	**3.63**	3.56
Facilities expansion	**1.78**	1.40
Minor acquisitions	**0.29**	0.68
Subtotal before land growth	**5.70**	5.64
Exploration land growth	**0.81**	0.57
Total ($ per barrel of oil equivalent, 10:1)	**6.51**	6.21

AEC's gas marketing team arranged new markets for the merged company's growing production, with estimated 1997 aggregator sales at 47 percent of the portfolio. Approximately 60 percent of AEC's produced gas sales are tied to U.S. reference prices. Contractual commitments have been secured for 85 percent of AEC's 1997 estimated gas sales of 600 million cubic feet per day. The remaining 90 million cubic feet per day will be used to rebuild storage inventories and to capture attractive spot prices during peak winter markets. The average price for AEC's produced gas strengthened to $1.77 per million British thermal units compared with $1.40 per million British thermal units in 1995. This price jump is primarily due to strong weather-related demand in North America. Gas prices are expected to continue to be volatile due to an ongoing tightening of the North American supply/demand balance. AEC complements its marketing activity and optimizes its use of the AECO C storage facility by trading purchased gas. These trading volumes increased to 532 million cubic feet per day from 308 million cubic feet per day in 1995 and are expected to increase to 535 million cubic feet per day in 1997. Gas export pipelines

General and administrative expense reductions – in addition to 'growth', AEC is focusing on increased efficiency.

from Canada are running at near capacity. The earliest time frame for major additional pipeline capacity is late 1998, with the expansion of the Northern Border System, in which AEC has contracted 66 million cubic feet per day in additional volumes. In recognition of its growing production base, AEC has committed additional volumes to the Alliance gas pipeline currently being proposed from northeast British Columbia to the Chicago region.

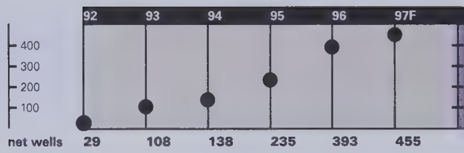
new U.S. markets → *accessed through the recently-completed Express Pipeline will begin to receive AEC oil in 1997*

AEC's oil marketing team successfully sold the Company's growing liquids production despite export pipeline constraints. Strong world oil demand and historically low inventories resulted in higher-than-anticipated oil prices in 1996. The construction of additional pipeline capacity, principally the 50 percent AEC-owned Express Pipeline, to key U.S. mid-continent markets will alleviate the chronic pipeline apportionment which has occurred in recent years and allow for growth in oil production from western Canada. Based on widely-held concerns in late 1995 about potentially weak oil prices, and faced with opportunities to invest $2 billion in 1996, AEC implemented an oil price swap program. This reduced net realizations on AEC's average oil price by $3.37 per barrel in 1996. All oil price swaps terminated at year-end 1996. However, world oil markets proved most experts wrong and AEC's 1996 oil prices increased substantially, averaging $24.07 per barrel, after swaps, for all blends. Heavy oil price differentials widened in 1996 in response to higher light oil prices, increasing heavy oil supplies and pipeline apportionment. New U.S. markets accessed through the recently completed Express Pipeline will begin to receive AEC oil in early 1997.

AEC East at a glance →

	1995	1996	1997F
Proven and probable reserves			
Natural gas (billion cubic feet)	1,200	**1,175**	n/a
Conventional oil (million barrels)	33.6	**42.2**	n/a
Production			
Natural gas (million cubic feet per day)	260	**248**	270
Conventional oil (barrels per day)	5,390	**7,651**	15,000
Undeveloped lands (thousand net acres)	1,122	**1,186**	n/a
Net wells			
Exploration	–	**35**	63
Development	136	**181**	137
Capital expenditures ($ millions)	65	**124**	150

AEC East's established shallow natural gas assets are complemented by new heavy oil prospects within the Plains region of the Western Canadian Sedimentary Basin.



Total exploration and development wells – AEC was the fourth most active driller in Canada in 1996.

heavy oil →
continues to provide the potential for major growth

Heavy oil production at Suffield, Primrose and Frog Lake continues to provide the potential for major growth. The current plan is to nearly double production during 1997 through an aggressive drilling program and completion of processing facilities. In addition, AEC East put together a steam-assisted gravity drainage (SAGD) team and initiated a pilot project to evaluate the commercial potential of AEC's huge Primrose heavy oil holdings.

Operations in major natural gas fields at Suffield and Primrose are also expanding through both exploration and tapping shallow gas-bearing zones bypassed during previous drilling programs.

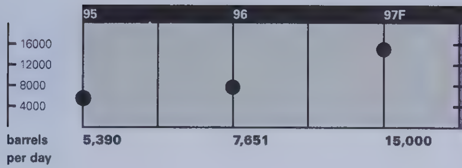
During 1996, AEC East established an exploration team mandated to build a significant exploration program outside the Suffield and Primrose military ranges. The initial focus areas for exploration are in the oil prone Williston Basin of Saskatchewan and North Dakota. In North Dakota, 30,000 net acres were acquired in a conventional, multi-zone oil play. Drilling on this acreage will commence in 1997.

Suffield →
1997 oil production is forecast to nearly double

On the 1,000-square-mile Suffield military training range in southeast Alberta, AEC operates more than 3,100 natural gas wells and 270 oil wells with a 94 percent average working interest.

Suffield continues to be AEC East's largest single producing gas property. In 1996, production averaged 142 million cubic feet per day. AEC East plans to drill 20 gas wells in Suffield in 1997, but the full extent of this drilling program will be influenced by gas market conditions, as it is expected that additional production capacity can be realized quickly. More than 500 additional infill gas wells could be drilled at Suffield over the next three years. This drilling program would target shallow gas-bearing formations bypassed during earlier drilling operations, and help optimize field compression. Previous production declines are being reversed as production is expected to increase by 20 to 30 million cubic feet per day by 1998. Operating costs of $0.25 per thousand cubic feet and AEC's production infrastructure make additional Suffield gas investment likely to occur.

Suffield is also rich in heavy oil resources. Oil production averaged 6,736 barrels per day in 1996 – up from 4,998 barrels per day a year earlier – and exited the year at a rate of 9,650 barrels per day. Average daily production in 1997 is expected to exceed 11,000 barrels per day. A major portion of this increase results from introducing progressive cavity (rotary) pumps at Dieppe, Area C and Deberg in 1997. These areas are within the active military areas of the Suffield Block. This innovative recovery technology is applied subsurface. Because it eliminates the potential operating conflicts with the military, it broad-



AEC East oil sales are currently forecast to nearly triple over a two-year period.

Suffield heavy oil →
recovery technology continues to improve, resulting in some of the industry's lowest costs

Primrose →
substantial promise for increased exploration and development of natural gas and oilsands

ens the production window from military stand-down periods to year-round. Production at Dieppe jumped 270 percent, and in Area C, has increased 200 percent since 1994.

By applying other recent technological advances in exploration and development, such as three-dimensional (3D) seismic and horizontal drilling, nine million barrels of proven reserves of 12° to 17° API crude were added. This brings Suffield proven and probable remaining recoverable reserves to 30 million barrels.

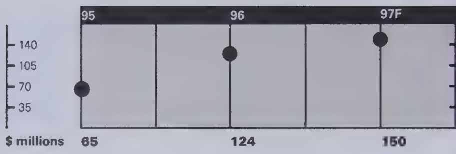
Suffield heavy oil recovery technology continues to improve, resulting in some of the industry's lowest operating costs, at $3.79 per barrel. Two new oil batteries, with the capacity to process an aggregate 12,000 barrels per day, will be in operation by late 1997 to replace temporary facilities.

In an ongoing effort to focus on operating efficiencies, AEC East closed its Redcliff office in 1996. Operating staff relocated to key facilities on the Block, while engineering and administrative staff functions were consolidated in Calgary.

AEC holds a 97 percent working interest in the petroleum and natural gas rights on the 2,000-square-mile Primrose Air Weapons Range in east-central Alberta. These lands hold substantial promise for increased exploration and development of natural gas and oilsands. More than half of the 860,000 net acres of petroleum and natural gas rights owned by AEC at Primrose are unexplored. AEC East drilled 27 gas wells, five cold production oil wells and eight SAGD-related wells on the property last year, accelerating the evaluation of this major asset.

Gas production is currently averaging 90 million cubic feet per day from 70 wells. Proven and probable gas reserves are at 432 billion cubic feet. Production is currently projected to grow steadily as wells, already drilled but not connected, could be tied-in over the next two years to add 25 million cubic feet per day in 1997 and a similar amount in 1998, should markets expand. The additional production will be processed through expansions at Caribou Lake and Primrose North Plants. The AEC East team's goal is to maintain an average Primrose operating cost of $0.16 per thousand cubic feet by applying such technology as remote telemetry for gas wells and facilities.

Primrose comprises one of AEC's highest-potential, unrealized assets; an estimated 21 billion barrels (net to AEC) of oil in place at Primrose. Steam-assisted gravity drainage, a recent technological breakthrough, combines steam injection and horizontal drilling technologies. AEC is currently piloting the technology with a view to commercial application.



AEC East capital expenditures – pursuit of newly-identified growth opportunities is currently targeted to increase investment by 130 percent. These properties were previously considered mature.

SAGD was initially proven by a joint Alberta Government/Industry research project in the McMurray formation, the same geological formation in which AEC is conducting its pilot. AEC's pilot project consists of three parallel horizontal well pairs: an upper steam injection well and a lower oil production well. The producing well, with 2,100 feet of horizontal wellbore, has been drilled and completed. The steam injection well should be completed by the spring, enabling AEC East to complete a thorough project evaluation and decision-making process by year-end 1997.

SAGD →
could potentially sustain several 30,000 barrel per day plants

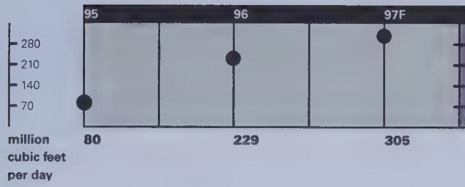
If the Primrose SAGD project proves commercial, AEC's holdings could potentially sustain several 30,000 barrel per day plants. The 1,500 barrel per day pilot project could lead to AEC's first commercial facility coming on stream over the period 1998 – 2000. Each 30,000 barrel per day commercial facility could add approximately 100 million barrels of reserves, the equivalent of AEC's current conventional reserves base.

The Frog Lake heavy oil field near Lloydminster is also experiencing production growth now that rotary-screw pumps demonstrate the ability to handle large volumes of sand in the recovery process. Proven reserves are 3.3 million barrels. A 45-well directional drilling program during 1996 more than doubled average production to 915 barrels per day of 12° API oil, and by year end, production reached a rate of 1,800 barrels per day. AEC expects to drill another 18 wells at Frog Lake during 1997 to bring total average daily production to approximately 2,600 barrels per day.

AEC West at a glance →

	1995	1996	1997F
Proven and probable reserves			
Natural gas (billion cubic feet)	426	**1,515**	n/a
Oil and natural gas liquids (million barrels)	8.3	**59.4**	n/a
Production			
Natural gas (million cubic feet per day)	80	**229**	305
Liquids (barrels per day)	2,489	**11,576**	14,200
Undeveloped lands (thousand net acres)	400	**1,837**	n/a
Net wells			
Exploration	15	**34**	105
Development	8	**46**	50
Capital expenditures ($ millions)	40	**219**	230

AEC West has quickly established itself as the dominant exploration and production company in the West Peace River Arch (WPRA), one of the most active regions of the Western Canadian Sedimentary Basin. Year-end statistics shown above include production from non-oper-



AEC West natural gas production – 39 percent compound growth is currently planned over 2 years.

ated Alberta properties of 35 million cubic feet per day and 5,200 barrels per day.

West Peace River Arch →

AEC West has quickly established itself as the dominant exploration and production company in the WPRA

The WPRA is a key region where AEC and Conwest assets and employees have been fully integrated. AEC's dominant position in this 4,000-square-mile area is demonstrated through a 78 percent working interest on 1.1 million acres of petroleum and natural gas rights. The WPRA 1997 capital budget of $140 million will support additional land purchases and the drilling of 115 wells, with the goal of maintaining AEC West's prominence. Within this region, AEC's proven and probable reserves are more than 850 billion cubic feet of natural gas and 30 million barrels of oil and natural gas liquids.

Two operating initiatives illustrate the benefits of the merger with Conwest. After the merger, the AEC West team moved quickly to tie in a major Conwest gas discovery to AEC's Hythe plant. This single well has exceeded 30 million cubic feet per day. Shortly thereafter, greater plant operating efficiencies were achieved by a pipeline expansion which interconnects the area's two largest sour gas processing plants – Hythe and Sexsmith.

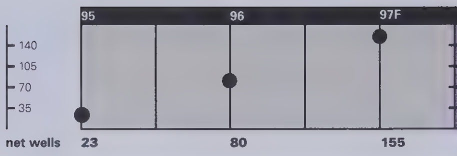
Average 1996 oil and gas production from WPRA reached 170 million cubic feet per day and 5,000 barrels per day, respectively, from more than 300 operated wells. WPRA 1997 gas production is estimated to be 230 million cubic feet per day. Liquids production is also expected to increase this year to an average 7,500 barrels per day.

Montney →

pioneered by Conwest, the montney play is one of the largest natural gas discoveries of the decade

AEC West's three principal WPRA gas fields are Hythe, Sexsmith and Knopcik. Drilling efforts focus on the Montney zone at Sexsmith and Knopcik, while the Doig and Halfway formations are the primary targets at Hythe. Conwest pioneered the Montney play with one of the largest natural gas discoveries of the decade. The Montney is also a key formation for oil production at Valhalla, where a 10-well infill drilling program, supported by 3D seismic technology, increased volumes to 2,000 barrels per day during 1996.

Another important part of AEC West's strategy in the WPRA is continued dominance of natural gas processing capability. Last year saw the full commissioning of the 63 percent AEC-owned and operated 210 million cubic feet per day sour gas plant at Sexsmith, acquired in the Conwest merger. By year-end, this plant achieved 100 percent of its licenced capacity. Plans for 1997 are to connect the plant to an additional sweeter gas supply, thereby diluting the sour gas content of the feedstock and further increasing production levels. The adjoining 85 percent AEC-owned, 50 million cubic feet per day sweet gas module was completed in September and is operating extremely



AEC West drilling activity is currently planned to nearly double in 1997 to 155 net wells. The merger has greatly enhanced the opportunities in AEC West.

well. These two state-of-the-art facilities use the latest technological advances to monitor and carry out operations in both the plants and at the wellsites.

At Hythe, expansion has begun on the 110 million cubic feet per day (50 percent AEC) sour gas processing facility to accommodate growing production. Once work is completed in the third quarter of 1997, the Hythe plant will also be able to process 60 million cubic feet per day (100 percent AEC) of liquids-rich, sour gas.

Edson/Deep Basin →
an important area of future growth

AEC West looks to its substantial holdings of undeveloped land in the Edson region as an important area for future growth. Current gas production rates are 35 million cubic feet per day and liquids are 1,250 barrels per day. This west-central Alberta sub-business unit invested $37 million for land and a 10-well drilling program in 1996.

A 16-well, $25 million exploration program is planned for 1997. Part of that program is the search for large reserves in the Bigstone and Berland River areas. Increased production potential is available in early 1997 through a new business arrangement to process 10 million cubic feet per day which AEC was forced to shut in last year when an existing third party plant facility was closed.

British Columbia →
this sub-business unit will continue to assemble land

The B.C. sub-business unit will continue to assemble land positions, building on its current inventory of 250,000 net undeveloped acres in three key areas of northeastern British Columbia. The 1996 expenditures of $28 million included one-third for the Tommy Lakes compressor station and gas gathering system, with the balance directed to drilling five net wells. The expanded Hythe Plant will be connected to the Swan Lake area south of Dawson Creek through a strategically located pipeline gathering system. The 1997 capital budget of $25 million includes plans for land purchases and 20 wells.

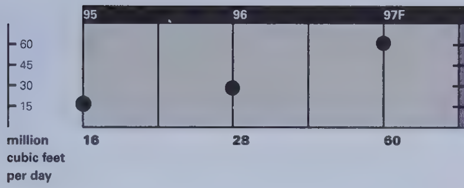
East of 6th Meridian →
five operated exploration wells are planned

The emerging East of 6th Meridian sub-business unit plans five operated exploration wells on three properties, primarily in the Rocky Mountain House/Caroline areas of Alberta. Last year's gas production was 23 million cubic feet per day and liquids totalled 4,800 barrels per day. Production rates for 1997 are anticipated to be relatively unchanged.

New Ventures →
mandate is to identify and evaluate high potential prospects

The recently-formed New Ventures group is a key initiative for AEC's future growth. Supported by a $20 million budget in 1997, the group's mandate is to identify and drill between six and 10 high-impact prospects in the deep gas regions along the Foothills.

AEC West has negotiated an agreement with the Blackfeet Indian Nation in Montana and has assembled 378,000 net acres of native and freehold lands on the Blackfeet Reserve. Plans for 1997 include two wildcat wells (100 percent AEC) targeting deeper formations.



AEC North natural gas production is currently forecast to double in 1997 to 60 million cubic feet per day.

AEC North at a glance →

	1995	1996	1997F
Proven and probable reserves			
Natural gas (billion cubic feet)	264	**370**	n/a
Oil and natural gas liquids (million barrels)	9.7	**8.2**	n/a
Production			
Natural gas (million cubic feet per day)	16	**28**	60
Liquids (barrels per day)	5,361	**5,091**	5,000
Undeveloped lands (thousand net acres)	1,145	**1,634**	n/a
Net wells			
Exploration	29	**66**	68
Development	47	**31**	32
Capital expenditures ($ millions)	88	**105**	100

AEC North's operating focus is on the light oil prospects of the East Peace River Arch (EPRA) and the shallow gas formations in the northern portion of the Western Canadian Sedimentary Basin. In 1996, capital investment proved up the high potential of several areas in northern Alberta: Joan, Panny and Fontas River.

Northwest Shallow Gas →

new facilities are expected to double gas production in 1997

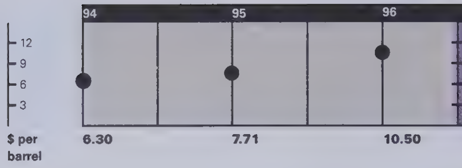
To economically develop these shallow gas reserves, the 'AEC formula' is again applied: acquire large tracts of land, control infrastructure, drill and develop facilities during the winter access season. In 1996, more than 320,000 net acres of shallow gas acreage were added, as were portable processing facilities and a comprehensive gas gathering pipeline system at Joan. As a result, gas production at Boyer increased 25 percent to 19 million cubic feet per day and, at Joan, increased to eight million cubic feet per day. New facilities at Fontas River and Panny are expected to double that production in 1997. The Bluesky formation is the principal shallow gas zone for both Boyer and Joan, as well as areas north and east of Joan.

Increased production volumes will reduce operating costs in the Northwest Shallow Gas region. Capital investment is controlled with portable, skid-mounted, modular gas plants which are ideal for shallow gas operations, and can be moved quickly and inexpensively from field to field as the reserves deplete. Approximately 45 percent of AEC North's $100 million budget has been allocated for gas development.

East Peace River Arch →

the company's largest portion of conventional light oil volumes are in the EPRA

With an average production rate of approximately 5,000 barrels per day in 1996 and year-end reserves of 8.2 million barrels, the EPRA accounted for the Company's largest portion of conventional light oil production volumes last year. The six pools in the Ogston field are the primary source, with remaining reserves of 4.5 million barrels in 1996. Re-mapping of the pool after drilling an unsuccessful delineation well reduced year-end 1995 proven and probable reserves. Other active fields within the unit include Red Earth, Trout and Evi. Drilling plans within the EPRA include 15 wells.



Syncrude cash operating margins – cash net backs at Syncrude are particularly attractive as there is no finding cost or exploration risk.

Syncrude at a glance →

	1995	1996	1997F
Proven reserves (million barrels)	280	**269**	259
Probable reserves (million barrels)	n/a	**490**	490
Proven life index (years)	28	**27**	25
Production (barrels per day)	27,823	**27,596**	28,500
Capital expenditures ($ millions)	28	**29**	40

AEC Syncrude →

production costs keep decreasing and production keeps increasing, it is a very long-life growth asset

As the second largest owner, with a 13.75 percent interest, AEC has in Syncrude a long-life light oil asset with potential for continued profitable growth. AEC also holds a six percent gross over-riding royalty on another 6.25 percent of Syncrude. The oil sands mining and processing operation produces a sweet synthetic crude that is priced to reflect its premium quality in the North American market.

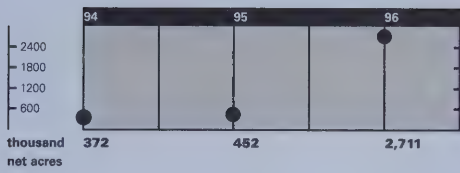
Spread over six leases totalling almost 170,000 acres north of Fort McMurray, Syncrude holds two billion barrels of proven synthetic oil reserves, and four billion barrels of probable reserves, of which AEC's share is 269 million barrels and 490 million barrels of proven and probable reserves respectively. AEC's share of Syncrude's daily 1996 production was 27,596 barrels per day of 32° API crude, an average expected to be surpassed during 1997.

cost reduction →

implementation of new technologies is a key part of Syncrude's strategy to reduce ongoing costs

A key part of Syncrude's strategy is ongoing cost reduction partly through the implementation of new technologies. In 1996, this trend was maintained with an average cash operating cost of $13.71 per barrel, the same as 1995, and a netback before oil swaps of $10.50 per barrel. Further cost reductions during 1997 target cash operating costs at $13.20 per barrel. Because there are no finding costs, Syncrude's development and production costs compare favourably to those associated with exploration, development and production costs for conventional oil. A new extraction process is expected to be used in the Aurora Mines on the recently acquired leases. It will use less energy and recover more bitumen with a new generation of chemicals that make tailings management easier than the conventional process.

Syncrude recently announced plans to significantly raise production, commencing in five years through a $2 billion capital spending program, including the introduction of new technologies and the debottlenecking of the Mildred Lake upgrader. Last year, Syncrude and other oil sands developers successfully negotiated new generic oil sands royalty terms with the provincial government. These terms are designed to reduce the royalty burden and encourage new development. The royalty structure, phased-in over the next seven years, substantially reduces AEC's future royalty burden.



International undeveloped land – AEC is well-positioned for international exploration. The first two exploration wells began drilling in late 1996.

AEC International at a glance

	1995	1996	1997F
Proven and probable reserves (million barrels of oil equivalent)	4.2	**3.3**	n/a
Conventional oil production (barrels per day)	1,090	**1,241**	2,300
Undeveloped lands (thousand net acres)	452	**2,711**	n/a
Wells			
Exploration	–	**1**	4
Development	2	**5**	8
Capital expenditures ($ millions)	16	**25**	40

Argentina

AEC International plans 12 exploration wells in 1997

AEC International's average production is forecast to grow by 85 percent to 2,300 barrels per day. AEC International plans to drill 12 wells in Argentina in 1997 on 452,000 net acres of exploration land in the prolific Neuquen Basin, representing a 100 percent increase over 1996 drilling activity. The Company drilled its first two exploration wells in the second half of 1996. Initial data on one of the wells in the Puesto Prado block shows the well encountered 125 feet of net oil pay, tested in excess of 1,000 barrels per day and producing 35° to 40° light gravity sweet crude. The second exploration well was drilling at year-end, but had tested substantial quantities of gas from one zone.

Trinidad

AEC owns 70,000 net acres

In northern Trinidad, AEC owns 70,000 net acres of land and operates an exploration licence in the Caroni Basin, an extension of the prolific Eastern Venezuela Basin. A 180-mile seismic program will be completed by the end of the first quarter 1997, and a decision on continuing exploratory work will be made during the latter half of the year.

Thailand

AEC secured 100 percent onshore exploration option on 2.2 million net acres

AEC's extensive experience operating on Canadian military land was a key strategic asset for the Company in northern Thailand; the Company's success on the Suffield and Primrose military ranges helped secure a 100 percent AEC onshore exploration option on 2.2 million net acres of land held by the Thai military, giving AEC total control of the Chiang Mai basin. A comprehensive basin analysis will be completed by mid-1997.

reserves reconciliation

	natural gas (billion cubic feet)			conventional oil & NGLs (million barrels)			syncrude (million barrels)			argentina (million barrels)		
(before royalties)	Prov.	Prob.	Total	Prov.	Prob.	Total	Prov.	Prob.	Total	Prov.	Prob.	Total
1994												
Balance at December 31, 1993	1,482	321	1,803	18.8	8.9	27.7	246.0	–	246.0	–	–	–
Revisions of established pools	18	(4)	14	3.5	2.5	6.0	33.0	–	33.0	–	–	–
Discoveries and extensions	75	19	94	8.5	4.1	12.6	–	–	–	–	–	–
Acquisition of reserves – net	73	33	106	(1.0)	(0.7)	(1.7)	–	–	–	1.4	2.9	4.3
Production	(126)	–	(126)	(3.8)	–	(3.8)	(10.0)	–	(10.0)	(0.1)	–	(0.1)
Balance at December 31, 1994	1,522	369	1,891	26.0	14.8	40.8	269.0	–	269.0	1.3	2.9	4.2
1995												
Revisions of established pools	(7)	(8)	(15)	(0.3)	(0.3)	(0.6)	21.0	–	21.0	–	(0.4)	(0.4)
Discoveries and extensions	93	45	138	8.5	15.6	24.1	–	–	–	–	–	–
Acquisition of reserves – net	26	1	27	(0.2)	(0.3)	(0.5)	–	–	–	0.8	–	0.8
Prior period adjustment (note 2)	(6)	(28)	(34)	(2.3)	(5.1)	(7.4)	–	–	–	–	–	–
Production	(117)	–	(117)	(4.8)	–	(4.8)	(10.0)	–	(10.0)	(0.4)	–	(0.4)
Balance at December 31, 1995 – restated	1,511	379	1,890	26.9	24.7	51.6	280.0	–	280.0	1.7	2.5	4.2
1996												
Discoveries and extensions	**251**	**207**	**458**	**17.8**	**1.1**	**18.9**	**–**	**490.0**	**490.0**	**0.4**	**(0.7)**	**(0.3)**
Acquisition of reserves – net	**615**	**285**	**900**	**33.2**	**15.0**	**48.2**	**–**	**–**	**–**	**–**	**–**	**–**
Production	**(188)**	**–**	**(188)**	**(8.9)**	**–**	**(8.9)**	**(11.0)**	**–**	**(11.0)**	**(0.6)**	**–**	**(0.6)**
Balance at December 31, 1996	**2,189**	**871**	**3,060**	**69.0**	**40.8**	**109.8**	**269.0**	**490.0**	**759.0**	**1.5**	**1.8**	**3.3**

Note 1 Year-end 1996 conventional reserves balances have been independently estimated by consulting engineers McDaniel and Associates Consultants Ltd.and Gilbert Laustsen Jung Associates Ltd.

Note 2 The prior period adjustment reflects an independent review of AEC's conventional reserves base as at December 31, 1995. Accordingly the changes have been given effect on a retroactive basis.

landholdings at year-end 1996

	western canada		montana/ north dakota		total north america		international		total
thousand acres	developed	undeveloped	developed	undeveloped	developed	undeveloped	developed	undeveloped	
Gross	1,934	5,083	–	475	**1,934**	**5,558**	5	2,921	**10,418**
Net	1,375	4,203	–	454	**1,375**	**4,657**	5	2,711	**8,748**

wells drilled (western canada)

	1996		1995		1994	
	gross	net	gross	net	gross	net
Exploration						
Gas	**68**	**65**	19	19	14	12
Oil	**22**	**19**	5	5	8	8
Cased	**11**	**11**	4	4	7	7
Dry and abandoned	**42**	**40**	18	16	20	18
Total	**143**	**135**	46	44	49	45
Success rate (percent)	**71**	**70**	61	62	59	60
Operated	**136**	**131**	45	43	46	44
Non-operated	**7**	**4**	1	1	3	1
Development						
Gas	**103**	**86**	110	100	55	50
Oil	**172**	**135**	76	66	38	22
Cased	**14**	**13**	6	4	9	7
Dry and abandoned	**27**	**24**	27	21	19	14
Total	**316**	**258**	219	191	121	93
Success rate (percent)	**91**	**91**	88	89	85	85
Operated	**271**	**247**	200	187	98	89
Non-operated	**45**	**11**	19	4	23	4
Depth						
Shallow (less than 2,000 feet)	**154**	**153**	122	117	39	37
Medium (2,000 – 9,000 feet)	**297**	**234**	138	114	124	94
Deep (more than 9,000 feet)	**8**	**6**	5	4	7	7

supplemental information

exploration & production (unaudited)

consolidated statement of earnings

$ millions	gas & ngls			conventional oil			marketing			total canadian conventional e&p		
year ended december 31	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**
Revenue	**$ 381.9**	$ 172.9	$ 247.6	**$ 156.2**	$ 86.6	$ 61.2	**$ 252.7**	$ 129.8	$ 83.5	**$ 790.8**	$ 389.3	$ 392.3
Royalties	**48.5**	17.9	33.4	**30.5**	14.7	8.9	**–**	–	–	**79.0**	32.6	42.3
Net revenue	**333.4**	155.0	214.2	**125.7**	71.9	52.3	**252.7**	129.8	83.5	**711.8**	356.7	350.0
Operating costs	**87.6**	40.1	46.3	**33.5**	17.5	16.0	**2.3**	4.6	1.9	**123.4**	62.2	64.2
Cost of gas purchased	**–**	–	–	**–**	–	–	**246.4**	126.9	83.0	**246.4**	126.9	83.0
Operating cash flow	**245.8**	114.9	167.9	**92.2**	54.4	36.3	**4.0**	(1.7)	(1.4)	**342.0**	167.6	202.8
DD&A	**151.7**	81.8	82.8	**32.0**	17.0	12.8	**–**	–	–	**183.7**	98.8	95.6
DD&A – acquisitions	**43.7**	10.8	12.6	**9.1**	2.2	1.9	**–**	–	–	**52.8**	13.0	14.5
Divisional income	**$ 50.4**	$ 22.3	$ 72.5	**$ 51.1**	$ 35.2	$ 21.6	**$ 4.0**	$ (1.7)	$ (1.4)	**$ 105.5**	$ 55.8	$ 92.7

consolidated statement of earnings

$ millions	syncrude			international			other			total exploration & production		
year ended december 31	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**
Revenue	**$ 266.5**	$ 246.7	$ 214.1	**$ 10.9**	$ 7.6	$ 1.7	**$ –**	$ –	$ 14.7	**$ 1,068.2**	$ 643.6	$ 622.8
Royalties	**56.3**	30.7	9.8	**0.3**	0.2	–	**–**	–	–	**135.6**	63.5	52.1
Net revenue	**210.2**	216.0	204.3	**10.6**	7.4	1.7	**–**	–	14.7	**932.6**	580.1	570.7
Operating costs	**141.9**	139.1	142.2	**11.2**	7.2	1.9	**–**	–	–	**276.5**	208.5	208.3
Cost of gas purchased	**–**	–	–	**–**	–	–	**–**	–	–	**246.4**	126.9	83.0
Operating cash flow	**68.3**	76.9	62.1	**(0.6)**	0.2	(0.2)	**–**	–	14.7	**409.7**	244.7	279.4
DD&A	**16.6**	17.3	15.9	**5.2**	2.5	0.7	**–**	–	–	**205.5**	118.6	112.2
DD&A – acquisitions	**–**	–	–	**–**	–	–	**–**	–	–	**52.8**	13.0	14.5
Divisional income	**$ 51.7**	$ 59.6	$ 46.2	**$ (5.8)**	$ (2.3)	$ (0.9)	**$ –**	$ –	$ 14.7	**151.4**	113.1	152.7
Less:												
General and administrative										**28.1**	29.1	31.1
Corporate DD&A										**4.3**	2.3	5.8
Interest										**30.3**	8.8	1.5
Foreign exchange										**–**	0.9	33.6
Income taxes										**60.9**	34.4	32.2
Net earnings from continuing operations										**$ 27.8**	$ 37.6	$ 48.5
Earnings per common share												
Basic										**$ 0.27**	$ 0.50	$ 0.65
Fully diluted										**$ 0.27**	$ 0.48	$ 0.64

consolidated balance sheet

$ millions		
as at december 31	**1996**	**1995**
Assets		
Current assets	**$ 259.1**	$ 194.2
Capital assets	**2,832.0**	1,594.7
Investments and other assets	**6.5**	7.2
	$ 3,097.6	$ 1,796.1
Liabilities		
Current liabilities	**$ 240.9**	$ 179.5
Long-term debt	**367.0**	153.5
Other liabilities	**60.6**	45.4
Deferred income taxes	**471.9**	390.4
	1,140.4	768.8
Capital employed	**1,957.2**	1,027.3
	$ 3,097.6	$ 1,796.1

Note: Includes allocation of corporate assets and liabilities

consolidated statement of operating and investing activities

$ millions *year ended december 31*	1996	1995	1994
Operating Activities			
Net earnings from continuing operations	$ 27.8	$ 37.6	$ 48.5
Depreciation, depletion and amortization	262.6	133.9	132.5
Deferred income taxes	59.9	21.0	5.0
Other	1.5	3.3	17.1
Cash flow from operations	$ 351.8	$ 195.8	$ 203.1
Investing Activities			
Acquisition	$ (1,120.9)	$ –	$ –
Capital investment	(508.3)	(239.9)	(283.5)
Proceeds on disposal of assets and investments	18.9	4.3	73.9
	$ (1,610.3)	$ (235.6)	$ (209.6)

Note: Includes corporate allocations

oil and gas operating statistics

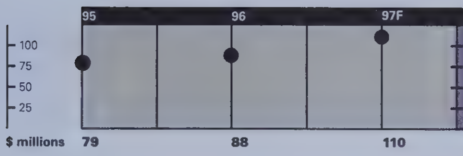
	1996 year	Q4	Q3	Q2	Q1	1995	1994	1993	1992
Sales									
Produced Gas (million cubic feet per day)	515	631	431	460	538	320	345	332	300
Oil and Natural Gas Liquids (barrels per day)									
Canada									
Syncrude	27,596	28,555	29,270	25,319	27,211	27,823	26,282	22,118	17,870
Conventional	19,507	21,857	19,238	18,580	18,330	11,549	9,267	7,939	6,886
Natural gas liquids	4,811	5,186	4,729	4,878	4,448	1,691	1,011	984	1,003
Total Canada	51,914	55,598	53,237	48,777	49,989	41,063	36,560	31,041	25,759
Argentina	1,241	1,602	992	1,264	1,105	1,090	260	–	–
Total	53,155	57,200	54,229	50,041	51,094	42,153	36,820	31,041	25,759
Per-unit Result (Canada)									
Produced gas ($ per thousand cubic feet)									
Price	1.77	2.06	1.56	1.59	1.75	1.40	1.88	1.75	1.37
Royalties	0.20	0.20	0.24	0.20	0.17	0.13	0.25	0.24	0.15
Operating costs	0.47	0.32	0.54	0.59	0.54	0.34	0.37	0.31	0.30
Net back	1.10	1.54	0.78	0.80	1.04	0.93	1.26	1.20	0.92
Conventional oil ($ per barrel)									
Price	21.80	22.59	23.46	20.87	20.03	20.54	18.09	15.93	16.88
Royalties	4.28	6.31	4.52	3.05	2.82	3.48	2.63	2.01	2.53
Operating costs	4.69	3.02	6.36	5.95	5.27	4.15	4.77	4.92	4.21
Net back after hedge	12.83	13.26	12.58	11.87	11.94	12.91	10.69	9.00	10.14
Net back before hedge	16.17					13.05	10.69	9.00	10.14
Natural gas liquids ($ per barrel)									
Price	23.95	27.64	22.40	20.32	17.00	15.74	15.05	15.71	14.79
Royalties	6.70	6.97	6.08	5.70	5.67	5.25	3.98	4.04	4.12
Net back	17.25	20.67	16.32	14.62	11.33	10.49	11.07	11.67	10.67
Syncrude ($ per barrel)									
Price, net of tariff	25.68	27.56	26.89	24.58	23.38	23.69	21.76	20.97	22.79
Gross overriding royalty	0.71	0.21	0.83	0.98	0.87	0.60	0.56	0.86	1.37
Sulphur and other revenue	–	–	–	–	–	–	–	(0.19)	(0.04)
Royalties	5.58	7.24	7.05	4.67	3.05	3.02	1.03	0.64	–
Cash operating costs	13.71	12.05	12.13	17.46	13.70	13.70	14.99	15.20	15.39
Net back after hedge	7.10	8.48	8.54	3.43	7.50	7.57	6.30	5.80	8.73
Net back before hedge	10.50					7.71	6.30	5.80	8.73

oil and gas operating statistics

	1997F	1996	1995	1994	1993	1992
Gas Production by Area (million cubic feet per day)						
East	270	**248**	260	264	236	229
West	305	**229**	80	68	56	46
North	60	**28**	16	9	5	3
Total field capability	635	**505**	356	341	297	278
Storage (injection) withdrawal	(35)	**10**	(36)	(7)	14	22
Native gas from storage	–	**–**	–	11	21	–
Total produced gas sales	600	**515**	320	345	332	300
Produced Gas Sales by Contract (million cubic feet per day)						
TransCanada Gas Services	85	**85**	111	146	168	178
Pan-Alberta Gas	110	**60**	31	38	38	44
ProGas	85	**50**	22	11	6	7
Long-term direct	100	**110**	90	72	49	19
Other	220	**210**	66	78	71	52
Total	600	**515**	320	345	332	300
Purchased Gas Sales (million cubic feet per day)	535	**532**	308	110	51	77
Oil and Natural Gas Liquids Production by Area (barrels per day)						
Canada						
Syncrude	28,500	**27,596**	27,823	26,282	22,118	17,870
East	15,000	**7,651**	5,390	4,283	4,558	4,036
West	14,200	**11,576**	2,489	1,889	1,827	1,996
North	5,000	**5,091**	5,361	4,106	2,538	1,857
Total Canada	62,700	**51,914**	41,063	36,560	31,041	25,759
Argentina	2,300	**1,241**	1,090	260	–	–
Total	65,000	**53,155**	42,153	36,820	31,041	25,759

oil and gas operating statistics

	1996	1995	1994	1993	1992
Undeveloped Acreage (thousand acres)					
North America					
Gross	**5,558**	3,240	2,017	1,777	2,008
Net	**4,657**	2,667	1,731	1,490	1,594
International					
Gross	**2,921**	452	372	282	–
Net	**2,711**	452	372	282	–
Reserves (before royalties)					
Gas (billion cubic feet)					
Proven	**2,189**	1,511	1,522	1,482	1,461
Probable	**871**	379	369	321	279
Total	**3,060**	1,890	1,891	1,803	1,740
Conventional Oil and Natural Gas Liquids (million barrels)					
Proven	**69.0**	26.9	26.0	18.8	16.9
Probable	**40.8**	24.7	14.8	8.9	8.4
Total	**109.8**	51.6	40.8	27.7	25.3
Syncrude (million barrels)	**759**	280	269	246	186
Argentina Oil (million barrels)	**3.3**	4.2	4.2	–	–
Finding and Development Cost Calculation					
Proven and Probable (Western Canada)					
Conventional Oil and Gas Investment ($ millions)					
Exploration (gross)	**168.2**	82.7	66.1	53.8	22.9
Development	**256.5**	100.0	105.0	68.9	33.8
Acquisitions	**19.6**	9.4	66.3	17.6	11.1
Total finding and development costs	**444.3**	192.1	237.4	140.3	67.8
Proven Plus Probable Reserves Added					
Gas (billion cubic feet)					
Discoveries and extensions	**458.0**	138.4	94.1	84.9	31.4
Revisions	**–**	(49.3)	14.0	0.8	38.4
Acquisitions	**23.0**	38.2	140.9	99.6	54.6
Total	**481.0**	127.3	249.0	185.3	124.4
Conventional Oil and Natural Gas Liquids (million barrels)					
Discoveries and extensions	**18.9**	24.1	12.6	5.7	1.9
Revisions	**–**	(7.9)	6.0	(1.2)	1.3
Acquisitions	**1.2**	–	0.1	1.3	2.6
Total	**20.1**	16.2	18.7	5.8	5.8
Total Reserve Additions 10:1 (barrel of oil equivalent)	**68.2**	28.9	43.6	24.3	18.2
Finding and Development Costs ($ per barrel of oil equivalent)					
10:1	**6.51**	6.64	5.44	5.77	3.72
6:1	**4.44**	5.13	3.94	3.82	2.56



Transportation, Storage and Processing operating cash flow is forecast to grow 25 percent in 1997.

Transportation, Storage & Processing Operations

"AEC has some unique midstream assets which not only add value to our upstream business, but also generate a growing, solid, non-commodity, price-independent cash flow stream."

The ownership of growing, profitable, 'midstream' assets is a unique AEC strength. Transportation, storage and processing activities in 1996 contributed $88 million in operating cash flow. These midstream assets are organized into the Pipelines and Gas Processing Business Unit, and the Gas Storage and Hub Services Business Unit.

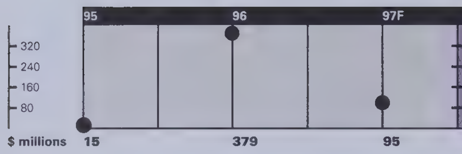
Pipelines historically has provided AEC with a reliable cash flow and earnings stream principally through investments in three systems. Each reflects AEC's entrepreneurial strategy of building non-utility, non-regulated pipelines. The most recent project, Express Pipeline (from Hardisty, Alberta to Casper, Wyoming), is a major growth opportunity, conceived by AEC, that took a unique, market-sensitive approach in setting contracts and tariffs to open new U.S. markets for Canadian producers.

AEC Pipelines recently announced plans to sell partnership units to the public. AEC Pipelines, L.P. has filed a preliminary prospectus with Canadian regulatory authorities and expects the issue to close early in the second quarter, 1997. The Partnership will enable the market price of AEC Common Shares to reflect the full value of the Company's pipelines assets and will provide the pipeline direct access to capital markets to pursue future growth opportunities.

Pipelines & Gas Processing →

northeast alberta remains the key region of operations

Northeast Alberta remains the key region of AEC's pipeline operations, where both the Alberta Oil Sands Pipeline (AOSPL) and Cold Lake Pipeline (CLPL) systems are located. AOSPL carries synthetic crude oil produced at the Syncrude oil sands plant near Fort McMurray, 280 miles to Edmonton. System capacity was expanded in 1996 to 230,000



Pipelines and Processing capital investment – grew dramatically in 1996 as a result of AEC's 50 percent ownership of the Express Pipeline System.

barrels per day from 215,000 barrels per day in response to increased Syncrude production. Capacity on the CLPL system also increased in 1996 to 258,000 barrels per day from 215,000 barrels per day, an expansion undertaken to handle anticipated higher production levels of heavy oil from the region. The CLPL line is expected to be further expanded in 1997. A steady revenue stream is assured as both intra-provincial oil lines are based on long-term contracts.

Express/Platte →

50 percent AEC owned, providing access to u.s. rocky mountain and midwest refineries

The 785-mile, 172,000 barrels per day, 50-percent AEC-owned Express Pipeline accesses U.S. Rocky Mountain refineries and connects with the Platte pipeline at Casper, Wyoming, providing the flexibility to move Canadian oil east to the Wood River, Illinois market region. AEC and its partner purchased the Platte pipeline in early 1996 and are in the final stages of refurbishing that system. Total Express/Platte investment to date is $349 million (50 percent AEC).

Express has adopted a market sensitivity tolling methodology under which shippers contracted for 85 percent of total capacity under 5-, 10- and 15-year contracts.

Express has been designed to facilitate future expansion which could increase daily throughput to 280,000 barrels per day to supply the growing market for Canadian oil in the U.S. Rocky Mountain region and mid-western states.

Processing →

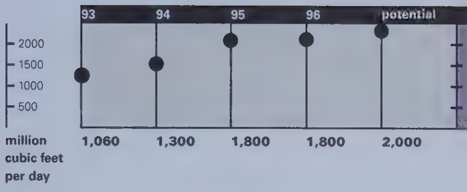
revenues were up considerably from AEC's investments in natural gas liquids extraction plants

The year 1996 also marked the commissioning and start-up of a new natural gas liquids extraction plant at Empress in which AEC holds a 40 percent interest. Natural gas liquids such as propane and pentanes-plus are valuable by-products in much of Alberta's natural gas. This $72 million project has a design capacity of one billion cubic feet per day.

AEC also has a quarter interest in another natural gas liquids extraction facility at Empress, through Pan-Alberta Resources Inc., a 50 percent AEC affiliate. Revenues from these investments were up considerably in 1996 due to the strong market prices for natural gas liquids.

Storage & Hub Services →

The AECO C HUB is one of the five major natural gas storage facilities in North America and the largest owned by an upstream oil and gas company. The Hub is the Canadian reference point for pricing of spot gas markets. Storage capability and market services are strategic advantages that give AEC a unique insight in the North American gas markets. Capacity at AECO C grew by five billion cubic feet in 1996 to



Gas storage withdrawal capacity – AEC owns and operates the largest independent storage facility in Canada.

AECO C HUB →

one of the five major natural gas storage facilities in north america

93 billion cubic feet. The peak withdrawal rate is up to 1.8 billion cubic feet per day and can be further expanded to two billion cubic feet per day. Additional storage investments are being assessed in California, adjacent to major gas transmission pipelines.

The Storage and Hub Services Business Unit adds value in two ways: by storing AEC's own production and gas purchased from third parties when prices are low for later re-sale in better markets; and, by providing a variety of long and short-term storage services at established fees to producers, marketers and industrial customers. AEC's E&P business units control 27 billion cubic feet of AECO C storage capacity. Third-party customers have contracted for the majority of the Hub's firm storage capacity, adding to AEC's long-term stable source of cash flow and earnings. The average remaining term of these third-party contracts exceeds seven years. As natural gas supply and demand become tighter, and/or gas price volatility increases, the value of gas storage services increases.

During 1996, AEC made significant progress on a new storage project in northern California. The necessary rights were acquired and an application was filed with the California Public Utilities Commission for the construction of the 14 billion cubic feet Wild Goose Storage facility. Subject to receiving the necessary regulatory approvals, and concluding satisfactory marketing arrangements, the proposed project could be operational by early 1999.

consolidated statement of earnings

$ millions	pipelines			gas storage			natural gas processing & investments			total transportation, storage & processing		
year ended december 31	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**	**1996**	**1995**	**1994**
Revenue	**$ 88.2**	$ 81.4	$ 81.3	**$ 25.2**	$ 18.9	$ 23.5	**$ 69.8**	$ 49.4	$ 61.9	**$ 183.2**	$ 149.7	$ 166.7
Operating costs	**34.7**	27.8	23.1	**9.7**	7.2	4.6	**51.2**	35.8	52.3	**95.6**	70.8	80.0
Operating cash flow	**53.5**	53.6	58.2	**15.5**	11.7	18.9	**18.6**	13.6	9.6	**87.6**	78.9	86.7
DD&A	**13.5**	13.2	13.5	**6.5**	6.1	4.1	**2.4**	1.8	1.7	**22.4**	21.1	19.3
Operating income	**40.0**	40.4	44.7	**9.0**	5.6	14.8	**16.2**	11.8	7.9	**65.2**	57.8	67.4
Equity earnings	**4.6**	(0.3)	2.9	**–**	–	–	**1.7**	3.5	3.1	**6.3**	3.2	6.0
Divisional income	**$ 44.6**	$ 40.1	$ 47.6	**$ 9.0**	$ 5.6	$ 14.8	**$ 17.9**	$ 15.3	$ 11.0	**71.5**	61.0	73.4
Less:												
General and administrative										**4.3**	6.1	2.3
Corporate DD&A										**0.8**	0.8	0.4
Interest										**23.1**	19.3	13.4
Foreign exchange										**–**	0.8	0.2
Income taxes										**18.1**	15.3	23.4
Net earnings from continuing operations										**$ 25.2**	$ 18.7	$ 33.7
Earnings per common share												
Basic										**$ 0.24**	$ 0.25	$ 0.46
Fully diluted										**$ 0.24**	$ 0.24	$ 0.45

consolidated balance sheet

$ millions, as at december 31	**1996**	**1995**
Assets		
Current assets	**$ 58.7**	$ 31.9
Capital assets	**718.5**	343.0
Investments and other assets	**17.4**	47.5
	$ 794.6	$ 422.4
Liabilities		
Current liabilities	**$ 71.8**	$ 23.7
Long-term debt	**601.3**	230.9
Other liabilities	**1.7**	1.6
Deferred income taxes	**47.0**	33.5
	721.8	289.7
Capital employed	**72.8**	132.7
	$ 794.6	$ 422.4

Note: Includes allocation of corporate assets and liabilities

consolidated statement of operating and investing activities

$ millions, year ended december 31	**1996**	**1995**	**1994**
Operating Activities			
Net earnings from continuing operations	**$ 25.2**	$ 18.7	$ 33.7
Depreciation, depletion and amortization	**23.2**	21.9	19.7
Deferred income taxes	**10.7**	3.2	2.0
Other	**1.0**	6.6	1.6
Cash flow from operations	**$ 60.1**	$ 50.4	$ 57.0
Investing Activities			
Capital investment – Express Pipeline project	**$(348.7)**	$ –	$ –
Capital investment – other	**(51.0)**	(31.1)	(56.3)
Proceeds on disposal of assets and investments	**32.6**	15.1	0.7
	$ (367.1)	$ (16.0)	$ (55.6)

Note: Includes corporate allocations

Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis of financial condition and results of operations is to be read in conjunction with the audited consolidated financial statements. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). A reconciliation to United States GAAP is included in note 14 to the consolidated financial statements.

AEC's results are reported in two segments: Exploration and Production comprises the Company's domestic and international oil and natural gas exploration, production and marketing operations; Transportation, Storage and Processing includes the pipeline, natural gas storage and gas processing operations.

results of operations

exploration and production

1996 compared with 1995

Results for 1996 were substantially affected by inclusion of Conwest Exploration Company Limited ("Conwest") results from January 1996 (see note 2 to the consolidated financial statements). Revenues, net of royalties, increased 61 percent or $352.5 million, to $932.6 million. The accompanying table shows the details of this change by product.

oil and natural gas revenue change

$ millions

	Price	Price Hedge	Volume	Royalties & Other	Total
Natural gas	76.8	(5.7)	99.5	7.8	178.4
Oil					
Conventional	32.0	(23.2)	60.0	(15.0)	53.8
Syncrude	53.7	(33.0)	(2.0)	(24.5)	(5.8)
International	2.2	–	1.1	(0.1)	3.2
Purchased gas sales	36.7	(0.3)	86.5	–	122.9
Total	201.4	(62.2)	245.1	(31.8)	352.5

Natural gas prices increased to $1.77 per thousand cubic feet from $1.40 per thousand cubic feet in the prior year, primarily as a result of the stronger winter heating season demand. The prior year average price

included the positive impact of an arbitration settlement concluded in 1995. Approximately 60 percent of the volumes available for sale in 1996 were linked to U.S. prices. A gas price swap program was established in 1995 and at December 31, 1996, eight million cubic feet per day was contracted at an average price of U.S. $2.26 per thousand cubic feet. All of these contracts end by October 1997. The increase in natural gas royalties and other includes revenues on natural gas liquids sales volumes which increased to 4,811 barrels per day in 1996 from 1,691 barrels per day in 1995 due principally to the addition of Conwest volumes.

Natural gas production volumes sold were 515 million cubic feet per day, up from 320 million cubic feet per day in 1995, due principally to the addition of Conwest volumes, new production brought on stream and volumes sold from storage to capture the seasonal price available from peak winter markets. Production volumes increased from 356 million cubic feet per day in 1995 to 505 million cubic feet per day in 1996. At year-end 1996, produced gas inventory in storage was 12 billion cubic feet, down from 15 billion cubic feet in 1995.

At December 31, 1996, the unrealized settlement asset related to the Company's natural gas price swaps was $0.2 million.

Oil prices improved for both conventional and Syncrude operations. Conventional oil prices rose six percent to $21.80 per barrel (1995 - $20.54 per barrel). Syncrude prices improved eight percent from $23.69 per barrel to $25.68 per barrel in 1996. The increase of 20 percent in the West Texas Intermediate ("WTI") average to U.S. $22.01 per barrel from U.S. $18.40 per barrel was not fully realized as a result of the price hedging program. During 1996, the Company entered into price swap agreements to fix the average price at $23.61 per barrel on approximately 47 percent of its production. At December 31, 1996, the Company had settled all oil fixed price agreements. Prices for Argentinean oil averaged $22.36 per barrel, net of royalties, up 22 percent from the 1995 average of $18.28 per barrel.

Revenue and cash flow from operations for the year ended 1996 were reduced by $64.3 million on oil and gas fixed price agreements in effect during 1996. Net earnings were reduced by $42.8 million.

Canadian conventional oil and natural gas liquids volumes rose to 24,318 barrels per day, an increase of 84 percent from 1995, primarily as a result of the addition of Conwest volumes and from exploration and development activity in the Suffield area. Syncrude's volumes of 27,596 barrels per day remained near the 1995 record of 27,823 barrels per day. International volumes increased to 1,241 barrels per day (1995 - 1,090 barrels per day) as a result of a successful Puesto Prado exploration well brought on production in late 1996.

product unit net back →

$ per unit

	Natural Gas (thousand cubic feet)		Conventional Oil (barrels)		Syncrude (barrels)	
	1996	1995	**1996**	1995	**1996**	1995
Revenue	**1.80**	1.40	**25.14**	20.68	**29.08**	23.83
Hedge	**0.03**	–	**3.34**	0.14	**3.40**	0.14
Revenue, net of hedge	**1.77**	1.40	**21.80**	20.54	**25.68**	23.69
Gross overriding royalty	**–**	–	**–**	–	**0.71**	0.60
Royalties	**0.20**	0.13	**4.28**	3.48	**5.58**	3.02
Operating costs	**0.47**	0.34	**4.69**	4.15	**13.71**	13.70
Net back	**1.10**	0.93	**12.83**	12.91	**7.10**	7.57

Natural gas unit net backs increased 18 percent due to higher prices partially offset by higher per unit operating costs of the Conwest acquired properties. Conventional oil net backs fell one percent as higher prices were offset by an increase in royalties and operating costs. Oil operating costs per unit increased due to a higher proportion of heavier crude grades produced. Syncrude oil net backs decreased six percent as an increase in royalties exceeded the increase in prices. Syncrude royalties are calculated using the price before the hedge.

Purchased gas sales rose to 532 million cubic feet per day from a 1995 total of 308 million cubic feet per day as a result of increased trading activity to capture profits from price volatility in the short-term market. At December 31, 1996, the Company had contracts in place to purchase 144 billion cubic feet of gas over a three-year period. Contracts were also in place to deliver 157 billion cubic feet over the same period. The shortfall will be supplied from gas held in inventory, gas to be acquired or produced gas.

1995 compared with 1994 →

Exploration and Production revenues, net of royalties, for 1995 increased by $9.4 million to $580.1 million. The accompanying table shows this increase on a product basis.

oil and natural gas revenue change →

	Price	Price Hedge	Volume	Royalties & Other	Total
Natural gas	**(59.4)**	**(0.1)**	**(17.4)**	**17.7**	**(59.2)**
Oil					
Conventional	**10.9**	**(0.6)**	**15.1**	**(5.8)**	**19.6**
Syncrude	**21.1**	**(1.4)**	**12.2**	**(20.2)**	**11.7**
International	**0.5**	**–**	**5.4**	**(0.2)**	**5.7**
Purchased gas sales	**(104.0)**	**–**	**150.3**	**–**	**46.3**
Other	**–**	**–**	**–**	**(14.7)**	**(14.7)**
Total	**(130.9)**	**(2.1)**	**165.6**	**(23.2)**	**9.4**

Natural gas prices declined to $1.40 per thousand cubic feet from $1.88 per thousand cubic feet in the prior year, which reflected the continuing surplus of natural gas in western Canada that resulted from downstream transportation restrictions. Prices strengthened in the fourth quarter to average $1.50 per thousand cubic feet as a result of the winter

heating season demand. The average price includes the impact of arbitration settlements concluded in 1994 and 1995. Approximately 60 percent of the volumes available for sale in 1995 were linked to U.S. prices. A gas price swap program was established in 1995 and at December 31, 1995, 14.2 million cubic feet per day was contracted at an average price of $1.62 per thousand cubic feet for various periods, all of which ended in 1996.

Natural gas production volumes sold were 320 million cubic feet per day, down from 345 million cubic feet per day in 1994, as the Company elected to inventory volumes in anticipation of higher prices. Production volumes increased from 341 million cubic feet per day in 1994 to 356 million cubic feet per day in 1995. The excess of production over sales was injected into storage. At year-end 1995, produced gas inventory in storage was 15 billion cubic feet, up from two billion cubic feet in 1994.

Oil prices improved for both conventional and Syncrude operations. Conventional oil prices rose 14 percent to $20.54 per barrel (1994 - $18.09 per barrel). Syncrude prices improved from $21.76 per barrel to $23.69 per barrel in 1995, an improvement of nine percent. Prices, net of royalties, for Argentinean oil averaged $18.28 per barrel, up five percent from the 1994 average of $17.42 per barrel. These increases parallel a year-over-year increase in the WTI average to U.S. $18.40 per barrel from U.S. $17.19 per barrel, with only a small variation in exchange rates. At December 31, 1995, the Company had 22,000 barrels per day of 1996 sales subject to fixed price agreements averaging $23.51 per barrel.

Canadian conventional oil and natural gas liquids volumes rose to 13,240 barrels per day, an increase of 29 percent from 1994, primarily as a result of exploration and development activity in the East Peace River Arch and Suffield areas. Syncrude's volumes increased six percent to a record 27,823 barrels per day reflecting higher facility throughputs. International volumes increased to 1,090 barrels per day (1994 - 260 barrels per day) as a result of the first full year of production from the Estancia Vieja, Argentina, property, acquired in the fourth quarter of 1994, and the acquisition of the Anticlinal Campamento property in 1995.

product unit net back →

$ per unit

	Natural Gas (thousand cubic feet)		Conventional Oil (barrels)		Syncrude (barrels)	
	1995	1994	1995	1994	1995	1994
Revenue	1.40	1.88	20.68	18.09	23.83	21.76
Hedge	–	–	0.14	–	0.14	–
Revenue, net of hedge	1.40	1.88	20.54	18.09	23.69	21.76
Gross overriding royalty	–	–	–	–	0.60	0.56
Royalties	0.13	0.25	3.48	2.63	3.02	1.03
Operating costs	0.34	0.37	4.15	4.77	13.70	14.99
Net back	0.93	1.26	12.91	10.69	7.57	6.30

Natural gas unit net backs declined 26 percent due to lower prices. Conventional oil net backs increased by 21 percent as a result of higher prices and lower costs which were partially offset by an increase in royalties. Oil operating costs per unit declined due to improved operating efficiency and higher production volumes. Syncrude oil net backs increased 20 percent for the same reasons as conventional oil net backs. While royalty rates generally track changes in prices, the increasing profitability of the Company's oil sands investment attracted a significantly higher royalty. Improved productivity and operating cost efficiency helped to cushion the impact.

Purchased gas sales rose to 308 million cubic feet per day from a 1994 total of 110 million cubic feet per day as a result of increased trading activity to capture profits from price volatility in the short-term market. At December 31, 1995, the Company had contracts in place to purchase 63 billion cubic feet of gas over a three-year period. Contracts were also in place to deliver 66 billion cubic feet. They will be supplied from gas to be acquired and gas held in inventory. At year-end, purchased gas held in inventory amounted to three billion cubic feet.

transportation, storage and processing

1996 compared with 1995 →

Revenue increased to $183.2 million from $149.7 million in 1995 due primarily to higher natural gas processing revenues associated with higher liquids prices and the commissioning of the new 40 percent owned Empress facility. Gas Storage and Pipeline revenues were also somewhat higher.

Gas storage operating income was up as a result of higher facility utilization.

Pipeline operating income was comparable to 1995, as increased operating costs, primarily associated with a safety and preventative maintenance program on the Alberta Oil Sands Pipeline, were recovered through tariff revenues.

1995 compared with 1994 →

Revenue declined to $149.7 million from $166.7 million in 1994 due primarily to lower revenues from the natural gas processing plant. Lower costs of the natural gas feed stock more than offset this decline and natural gas processing plant operating income increased 49 percent to $11.8 million.

Pipeline operating income decreased 10 percent to $40.4 million in 1995 partially as a result of project investigation costs.

Gas storage revenues decreased to $18.9 million from $23.5 million in 1994. Increases in costs and higher depreciation, depletion and amortization expense reduced operating income to $5.6 million from $14.8 million in 1994. Expenses increased as a result of project development costs and the impact of a full year of the expanded storage facility operation.

In December 1995, the Company sold its 50 percent investment in Pacific Coast Energy Corporation, owner of the Vancouver Island natural gas pipeline.

consolidated summary

1996 compared with 1995

Net earnings in 1996 were $68.0 million compared to $110.2 million for 1995, which included the $37.4 million gain on the 1995 sale of the Forest Products Division. Additional factors affecting 1996 net earnings are the amortization of the difference between the fair value and accounting book value of the Conwest acquisition, higher Syncrude royalties, higher interest expense and higher deferred income taxes. These factors were partially offset by higher natural gas and oil volumes and prices.

On a continuing operations basis, 1996 net earnings of $53.0 million is six percent lower than the 1995 total of $56.3 million.

Consolidated cash flow from operations was up 52 percent to $411.9 million, compared to $270.7 million in 1995. Higher natural gas and oil volumes and prices were the primary contributors.

On a consolidated basis, net revenues increased to $1,115.8 million (1995 - $729.8 million). Increased natural gas, purchased gas and conventional oil revenues offset decreases in Syncrude net revenues. Operating expenses increased to $372.1 million from $279.3 million primarily due to higher natural gas and conventional oil operating costs resulting from the addition of the Conwest properties. Cost of gas purchased increased primarily as a result of higher volumes of natural gas purchased for resale and higher unit costs per thousand cubic feet.

General and administrative expense decreased to $32.4 million from $35.2 million in 1995 due partially to the inclusion of $2.0 million of one-time costs related to streamlining the Company's operations in 1995.

Net interest expense increased $25.3 million to $53.4 million from $28.1 million in 1995 while foreign exchange expense was nil in 1996, down from $1.7 million in 1995. Increases in interest were due to higher average debt outstanding (1996 - $880 million, 1995 - $490 million) and interest allocated to the Forest Products Division in 1995 of $13.7 million.

Depreciation, depletion and amortization ("DD&A") increased to $285.8 million (1995 - $155.8 million) due to higher gas and oil sales volumes, and an increase in the per unit rate reflecting the amortization of the Conwest fair value to book value difference.

Equity earnings were up $3.1 million in 1996 partially due to a loss on disposition of Pacific Coast Energy Corporation in 1995.

Income taxes increased primarily as a result of the non-deductibility of the amortization of the difference between fair value and book value related to the Conwest acquisition. Cash income tax declined to $8.4 million from $39.2 million in 1995 principally as a result of increased deductible exploration and development investments.

1995 compared with 1994

Net earnings increased to $110.2 million in 1995, 10 percent higher than 1994. This improvement was due to the $37.4 million gain on the sale

of the Forest Products Division, higher oil prices and volumes, the 1994 impact of foreign exchange expense not incurred in 1995 and lower Syncrude operating costs. Significantly lower natural gas prices, increased royalties on Syncrude production and the 1994 sale of investments partially offset these gains.

On a continuing operations basis, excluding Forest Products, net earnings fell $25.9 million to $56.3 million from $82.2 million in 1994. The decline in natural gas operating income, as a consequence of lower prices, was the major factor in the change. Increases in interest costs due to higher average cost of debt (1995 - 8.5 percent, 1994 - 7.8 percent) were more than offset by decreases in foreign exchange costs and lower average long-term debt levels.

Consolidated cash flow from operations was $270.7 million, down from $294.8 million. Cash flow from continuing operations fell to $246.2 million from $260.1 million in 1994.

Cash income tax, excluding income tax payable on the gain on sale of the Forest Products Division, amounted to $39.2 million in 1995 (1994 - $59.1 million).

On a consolidated basis, net revenues decreased to $729.8 million (1994 - $737.4 million). Increased oil and purchased gas revenues offset decreases in natural gas and natural gas processing revenues. Operating expenses decreased to $279.3 million from $288.3 million primarily due to lower natural gas processing operating costs. Cost of gas purchased increased primarily as a result of higher volumes of natural gas purchased for resale, partially offset by a lower unit cost per thousand cubic feet.

General and administrative expense increased to $35.2 million from $33.4 million in 1994, due to the inclusion of $2.0 million of one-time costs related to streamlining the Company's operations.

Foreign exchange expense fell $32.1 million to $1.7 million from $33.8 million in 1994 while interest expense increased $13.2 million to $28.1 million (1994 - $14.9 million). The termination of a U.S. dollar denominated currency swap increased Canadian debt levels and concurrently eliminated this foreign exchange exposure.

DD&A increased to $155.8 million (1994 - $152.2 million) due to an increase in the per unit rate and higher oil sales volumes, partially offset by lower gas volumes.

Equity earnings were down $2.8 million in 1995 primarily due to a loss on disposition of Pacific Coast Energy Corporation.

liquidity and capital resources

1996 compared with 1995

The 1996 capital program was the largest in the Company's history and included $1,120.9 million as a result of the Conwest acquisition. Capital investment, excluding the Conwest acquisition, totalled $908.0 million,

$605.9 million higher than 1995. Western Canadian conventional Exploration and Production capital totalled $444.3 million, up from $193.0 million in 1995. The Company's 1996 capital program was primarily directed to drilling and completions in Alberta and securing a dominant land position in its focus areas. Syncrude capital requirements increased to $29.4 million due to new mine development and capacity capability improvements. International capital increased from $16.1 million to $24.5 million as a result of field development and new exploration wells.

Capital investment in Transportation, Storage and Processing was $397.9 million up from $30.5 million in 1995. During 1996, construction began on the Express Pipeline System, a crude oil pipeline from Hardisty, Alberta to Casper, Wyoming and on to Wood River, Illinois. As part of the development of the Express Pipeline System, AEC acquired 50 percent of the Platte Pipe Line System ("Platte") in February 1996 and commenced an extensive refurbishing and expansion program which is expected to be completed by July 1997. Construction of the Express Pipeline was substantially complete by year-end. Commissioning is underway with line-fill operations scheduled to begin in February with commercial deliveries in Casper, Wyoming expected in April 1997. AEC's investment in the Express Pipeline System was $348.7 million in 1996 and its share of the costs of completion are estimated to approximate $60 million. All costs, including interest during construction, have been capitalized to the project.

Investments to increase the AECO C gas storage capacity by five billion cubic feet and costs related to the Wild Goose Gas Storage facility in California amounted to $18.8 million. In September 1996 the Company and its joint venture participants commissioned a new natural gas liquids extraction straddle plant at Empress, Alberta after an investment in 1996 of $15.1 million.

On a consolidated basis, year-end debt levels increased to $968.3 million from $384.4 million reflecting the 1996 capital program, including acquisitions, and the application of $218.0 million net proceeds from the Forest Products disposition to debt in 1995.

The Conwest acquisition was funded by the issue of AEC shares for $540.4 million, debt assumed of $215.5 million and new debt of $350.5 million. On acquisition, $165 million of non-oil and gas assets of Conwest and an equivalent amount of debt were not consolidated as the Company intended to sell these assets. To December 31, 1996, $146.0 million has been realized on the disposition of these assets and the Company has agreements in place to sell the remaining assets and realize the balance of the $165 million.

The Express Pipeline investment of $348.7 million has been funded entirely with long-term debt facilities. Alternative financing arrangements as discussed in the Outlook section which follows, are in progress.

The balance of the capital program was funded by cash flow from operations, the issue of common share equity for net proceeds of $266 million and long-term debt facilities.

In 1996, the Company increased the number of its revolving credit and term loan facilities to five by adding a new facility for $375 million with a syndicate of banks. The total available under all facilities is $875 million repayable over term periods ranging from 6.5 to eight years, and is wholly unsecured. At December 31, 1996, the Company had $424.0 million of these facilities utilized. As a part of the Conwest transaction the Company assumed U.S. $125 million in fixed rate Senior Notes repayable between the years 2000 and 2006.

The Company completed its strategy to divest itself of non-core assets with the sale of its investment in AEC Power Ltd. effective June 30, 1996.

risk management →

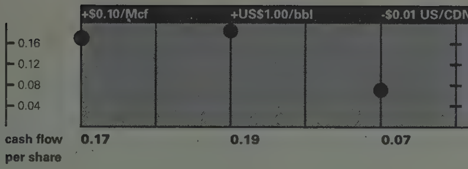
The Company's results are influenced by factors such as product prices, interest and foreign exchange rates, royalties, taxes and operations.

The Company manages its risk exposure through a combination of insurance, commodity price swap agreements, its system of internal controls and sound operating practices. Derivatives are used only to reduce specific risk exposures and are not held for trading purposes. In periods of currency volatility the Company may also use currency swaps to hedge against foreign exchange fluctuations. At year end, there were no currency swaps in place.

In addition to limits established by the Board of Directors on the use of commodity price swap agreements, a rigorous system of internal control procedures has been established. Credit risks are managed by transacting only with preauthorized financial counterparties where agreements are in place. Credit limits are established for all parties where a credit risk exposure exists and are closely monitored. During the year, commodity price swaps were utilized for Canadian oil, produced gas and purchased gas. All oil swap contracts had matured by December 31, 1996.

An active program of monitoring and reporting day-to-day operations provides some assurance environmental and regulatory standards are met. Contingency plans are in place for timely response to an event.

AEC is exposed to risks and uncertainties inherent in foreign operations, including regulatory and legislative changes. Events in these operations are not expected to have a material adverse effect on the Company.



Cash flow sensitivities – AEC will benefit substantially if commodity prices improve.

outlook

Sales of produced gas are expected to grow to 600 million cubic feet per day (1996 - 515 million cubic feet per day) and 65,000 barrels per day of oil and liquids (1996 - 53,155 barrels per day) as a result of the merger with Conwest and prior years' capital programs. Prices for gas and oil are expected to remain near the levels achieved in 1996. At 1997 anticipated volume levels, a change in natural gas price of $0.10 per thousand cubic feet would change cash flow from operations by approximately $20 million ($0.17 per share). A U.S. $1.00 per barrel change in oil price would change cash flow from operations by approximately $22 million ($0.19 per share). Natural gas net backs are expected to remain near 1996 levels. With the termination of all oil price swaps, oil net backs will reflect the trend in product prices. Oil operating costs are expected to increase by approximately 10 percent. It is anticipated Syncrude royalty rates will fall in 1997 in response to new fiscal terms established in 1996 for oilsands development.

Approximately 60 percent of gas contracts will be tied to U.S. reference prices. Of total sales, approximately 47 percent will be to aggregators. The Company believes it has contracted for adequate pipeline transportation to achieve its forecasted 1997 direct sales volumes. Capital investment for Exploration and Production is expected to rise to over $600 million.

Transportation, Storage and Processing operations are expected to generate higher net earnings and higher cash flow from operations as a result of the Express Pipeline and the full year impact of the Empress Straddle plant.

The Company is pursuing a financial restructuring of its pipeline interests, other than its interest in Iroquois Gas Transmission System, L.P. and has filed a preliminary prospectus (see note 16 to the notes to consolidated financial statements).

The Company will continue to assess the way in which it finances its operations to achieve financially prudent growth. The Company intends to finance its 1997 budgeted capital program through cash flow from operations, the planned reorganization of the Company's pipeline assets and long-term debt.

February 14, 1997

management report →

The accompanying consolidated financial statements and all information in this annual report are the responsibility of Management. The financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect Management's best judgements. Financial information contained throughout this annual report is consistent with these financial statements.

The Company has developed and maintains an extensive system of internal control that provides reasonable assurance that all transactions are accurately recorded, that the financial statements realistically report the Company's operating and financial results and that the Company's assets are safeguarded. The Company's Internal Audit department reviews and evaluates the adequacy of and compliance with the Company's internal controls. As well, it is the policy of the Company to maintain the highest standard of ethics in all its activities.

AEC's Board of Directors has approved the information contained in the financial statements. The Board fulfills its responsibility regarding the financial statements mainly through its Audit Committee.

Price Waterhouse, an independent firm of chartered accountants, was appointed by a vote of shareholders at the Company's last annual meeting to audit the consolidated financial statements and provide an independent professional opinion.

Gwyn Morgan
President & Chief Executive Officer

John D. Watson
Vice-President, Finance & Chief Financial Officer

auditors' report →

To the Shareholders of Alberta Energy Company Ltd.:

We have audited the consolidated balance sheets of Alberta Energy Company Ltd. as at December 31, 1996 and December 31, 1995 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the years in the three-year period ended December 31, 1996. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and December 31, 1995 and the results of its operations and the changes in its financial position for each of the years in the three-year period ended December 31, 1996, in accordance with generally accepted accounting principles.

Price Waterhouse

Chartered Accountants

Calgary, Canada February 3, 1997; except for note 16 which is as of February 14, 1997

note reference	consolidated statement of earnings			
	$ millions, except per share amounts			
	year ended december 31	**1996**	1995	1994
	Revenues, net of royalties			
	Exploration and production	**$ 932.6**	$ 580.1	$ 570.7
	Transportation, storage and processing	**183.2**	149.7	166.7
		1,115.8	729.8	737.4
	Costs and expenses			
	Operating	**372.1**	279.3	288.3
	Cost of gas purchased	**246.4**	126.9	83.0
	General and administrative	**32.4**	35.2	33.4
note three	Interest, net	**53.4**	28.1	14.9
	Foreign exchange	**–**	1.7	33.8
	Depreciation, depletion and amortization	**285.8**	155.8	152.2
	Earnings before the undernoted	**125.7**	102.8	131.8
	Equity earnings	**6.3**	3.2	6.0
note four	Income taxes	**(79.0)**	(49.7)	(55.6)
	Net earnings from continuing operations	**53.0**	56.3	82.2
note five	**Net earnings from discontinued operations**	**15.0**	53.9	18.3
	Net earnings	**$ 68.0**	$ 110.2	$ 100.5
	Earnings from continuing operations per common share			
	Basic	**$ 0.51**	$ 0.75	$ 1.11
	Fully diluted	**$ 0.51**	$ 0.72	$ 1.09
	Earnings per common share			
	Basic	**$ 0.65**	$ 1.47	$ 1.36
	Fully diluted	**$ 0.65**	$ 1.44	$ 1.34

See accompanying notes to the consolidated financial statements.

consolidated statement of retained earnings

$ millions *year ended december 31*	**1996**	1995	1994
Balance, beginning of year	**$ 464.7**	$ 384.3	$ 314.9
Net earnings	**68.0**	110.2	100.5
	532.7	494.5	415.4
Dividends			
Preferred shares	**–**	–	(3.0)
Common shares	**(39.7)**	(29.8)	(28.1)
	(39.7)	(29.8)	(31.1)
Balance, end of year	**$ 493.0**	$ 464.7	$ 384.3

See accompanying notes to the consolidated financial statements.

consolidated balance sheet

note reference	$ millions as at december 31	1996	1995
	Assets		
	Current assets		
	Cash and short-term investments, at cost which approximates market	**$ 76.7**	$ 64.2
	Accounts receivable and accrued revenue	**204.3**	132.8
note six	*Inventories*	**36.8**	29.1
		317.8	226.1
note seven	Capital assets	**3,550.5**	1,937.7
note eight	Investments and other assets	**23.9**	54.7
		$ 3,892.2	$ 2,218.5
	Liabilities and shareholders' equity		
	Current liabilities		
	Accounts payable and accrued liabilities	**$ 311.2**	$ 201.7
	Current portion of long-term debt	**1.5**	1.5
		312.7	203.2
note nine	Long-term debt	**968.3**	384.4
note ten	Other liabilities	**62.3**	47.0
	Deferred income taxes	**518.9**	423.9
		1,862.2	1,058.5
	Shareholders' equity		
note eleven	*Share capital*	**1,532.0**	692.3
	Retained earnings	**493.0**	464.7
	Foreign currency translation adjustment	**5.0**	3.0
		2,030.0	1,160.0
		$ 3,892.2	$ 2,218.5

See accompanying notes to the consolidated financial statements

Approved by the Board:

Director

R. T. Haskayne

Director

consolidated statement of changes in financial position

$ millions, except per share amounts *year ended december 31*	1996	1995	1994
Operating Activities			
Net earnings from continuing operations	**$ 53.0**	$ 56.3	$ 82.2
Depreciation, depletion and amortization	**285.8**	155.8	152.2
Deferred income taxes	**70.6**	24.2	7.0
Other	**2.5**	9.9	18.7
Cash flow from continuing operations	**411.9**	246.2	260.1
Cash flow from discontinued operations	**–**	24.5	34.7
Cash flow from operations	**411.9**	270.7	294.8
Net change in non-cash working capital – continuing operations	**(50.8)**	31.3	(56.0)
Net change in non-cash working capital – discontinued operations	**–**	37.1	(9.3)
	361.1	339.1	229.5
Investing Activities			
Acquisition	**(1,120.9)**	–	–
Capital investment – continuing operations	**(908.0)**	(271.0)	(339.8)
Capital investment – discontinued operations	**–**	(30.9)	(28.9)
Proceeds on disposal of Forest Products	**15.0**	218.0	–
Proceeds on disposal of assets and investments	**51.5**	19.4	74.6
Investments and other	**(9.9)**	(2.4)	(1.5)
Net change in non-cash working capital	**80.7**	(13.5)	7.9
	(1,891.6)	(80.4)	(287.7)
(Decrease) increase in cash before financing activities	**(1,530.5)**	258.7	(58.2)
Financing Activities			
Issue of long-term debt	**332.0**	25.0	208.0
Increase in long-term debt on acquisition	**566.0**	–	–
Repayment of long-term debt – continuing operations	**(149.3)**	(103.0)	(193.7)
Financing activities of discontinued operations	**–**	(106.2)	7.0
Common shares issued on acquisition	**540.4**	–	–
Issue of common shares	**293.6**	19.0	85.8
Common share dividends	**(39.7)**	(29.8)	(28.1)
Preferred share conversion and redemption	**–**	–	(75.0)
Preferred share dividends	**–**	–	(3.0)
	1,543.0	(195.0)	1.0
Increase (decrease) in cash and short-term investments	**$ 12.5**	$ 63.7	$ (57.2)
Cash and short-term investments, end of year	**$ 76.7**	$ 64.2	$ 0.5
Cash flow from continuing operations per common share			
Basic	**$ 3.93**	$ 3.28	$ 3.59
Fully diluted	**$ 3.82**	$ 3.18	$ 3.40
Cash flow from operations per common share			
Basic	**$ 3.93**	$ 3.61	$ 4.07
Fully diluted	**$ 3.82**	$ 3.51	$ 3.88

See accompanying notes to the consolidated financial statements.

note 1
summary of significant accounting policies

(a) principles of consolidation

The consolidated financial statements include the accounts of Alberta Energy Company Ltd. (the "Company") and its subsidiaries, all of which are wholly owned.

Investments in jointly controlled companies, jointly controlled partnerships and unincorporated joint ventures are accounted for using the proportionate consolidation method, whereby the Company's proportionate share of revenues, expenses, assets and liabilities are included in the accounts.

Investments in companies and partnerships over which the Company has significant influence are accounted for using the equity method.

A listing of major subsidiaries, affiliates, unincorporated joint ventures and partnerships is included on page 72.

(b) capital assets

exploration and production

conventional The Company accounts for conventional oil and gas properties in accordance with the Canadian Institute of Chartered Accountants' guideline on full cost accounting in the oil and gas industry.

All costs associated with the acquisition, exploration and development of oil and gas reserves are capitalized in cost centres on a country by country basis.

Depletion and depreciation are calculated using the unit-of-production method based on estimated proven reserves, before royalties. For purposes of this calculation, oil is converted to gas on an energy equivalent basis. All capitalized costs, except as noted below, are subject to depletion and depreciation including costs related to unproven properties as well as estimated future costs to be incurred in developing proven reserves. Costs of exploration and land in international cost centres are excluded from costs subject to depletion until it is determined whether or not proved reserves are attributable to the properties or impairment has occurred.

Future removal and site restoration costs are estimated and recorded over the estimated life of the reserves.

A ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proven reserves less the cost incurred or estimated to develop those reserves, related production, interest and general and administration costs, and an estimate for restoration costs and applicable taxes. The calculations are based on sales prices and costs at the end of the year.

oil sands Capital assets associated with surface mineable projects are accumulated, at cost, in separate cost centres. Substantially all of these costs are amortized using the unit-of-production method based on estimated proven developed reserves, applicable to each project.

transportation, storage and processing

Capital assets related to pipelines are carried at cost and depreciated using the straight-line method over the remaining term of each applicable pipeline service agreement.

Capital assets related to the Company's natural gas liquids extraction plant operations and gas storage facilities are carried at cost and depreciated using the straight-line method over a term of 20 years.

(c) foreign currency translation

Operations outside Canada are considered to be self-sustaining and use their primary currency for recording substantially all transactions. The accounts of self-sustaining foreign subsidiaries are translated using the current rate method, whereby assets and liabilities are translated at year-end exchange rates while revenues and expenses are converted using average annual rates. Translation gains and losses relating to these subsidiaries are deferred and included in shareholders' equity.

Long-term debt payable in U.S. dollars is translated into Canadian dollars at the year-end exchange rate, with any resulting adjustment amortized using the straight-line method over the remaining life of the debt.

note 1
summary of significant accounting policies
continued

(d) project investigation costs

Project investigation costs for new business opportunities are charged to earnings as incurred until such time as the commercial viability of the project is established. Subsequent expenditures are capitalized and amortized on a basis appropriate for the project.

(e) inventories

Inventories are valued at the lower of cost or estimated net realizable value.

(f) interest capitalization

Interest is capitalized during the construction phase of large capital projects.

(g) hedging activities

Settlement of crude oil and natural gas price swap agreements, which have been arranged as a hedge against commodity price and currency fluctuations, are reflected in product revenues at the time of sale of the related hedged production.

(h) comparative figures

Certain 1995 and 1994 figures have been reclassified for comparative purposes.

note 2
acquisition

In January 1996, the Company acquired all of the issued and outstanding common and preference shares of Conwest Exploration Company Limited ("Conwest") for consideration of 23.6 million common shares and cash. Conwest was engaged primarily in the exploration and production of oil and natural gas and had an investment portfolio and mining and hydro electric operations. On acquisition, $165 million of non-oil and gas assets of Conwest and an equivalent amount of debt were not consolidated in the financial statements, since the Company intended to dispose of these assets. To December 31, 1996, the Company has received proceeds of $146 million on the sale of these assets and has agreements in place to sell the remaining assets and realize the balance of the $165 million.

The acquisition has been accounted for using the purchase method with the results of operations of Conwest from January 1996 included in the consolidated financial statements.

The fair value of assets acquired is as follows:

Non-cash working capital deficiency	$ (0.2)
Capital assets	1,004.4
Non-oil and gas assets	165.0
Deferred income taxes	(27.2)
Other non-current liabilities	(21.1)
Net assets acquired	1,120.9
Cash less acquisition costs	(14.5)
	$ 1,106.4
Financed by:	
Cash paid	$ 350.5
Value assigned to common shares issued	540.4
Long-term debt assumed	215.5
	$ 1,106.4

note 3

interest, net

	1996	1995	1994
Interest expense - long-term debt	**$ 55.6**	$ 46.0	$ 34.8
Interest expense - other	**0.5**	–	1.5
Interest income	**(2.7)**	(4.2)	(2.7)
	53.4	41.8	33.6
Less interest allocated to discontinued operations (note 5)	**–**	13.7	18.7
Interest, net	**$ 53.4**	$ 28.1	$ 14.9

note 4

income taxes

The provision for income taxes has been allocated as follows:

	1996	1995	1994
Continuing operations	**$ 79.0**	$ 49.7	$ 55.6
Discontinued operations (note 5)	**–**	13.7	14.5
Total income taxes	**$ 79.0**	$ 63.4	$ 70.1

	1996	1995	1994
Current	**$ 4.0**	$ 36.8	$ 57.1
Deferred	**70.6**	24.2	11.0
Alberta royalty tax credit	**(1.5)**	(1.5)	(1.9)
Large corporations tax	**5.9**	3.9	3.9
Income taxes	**$ 79.0**	$ 63.4	$ 70.1

The following table reconciles income taxes calculated at statutory rates with actual income taxes:

	1996	1995	1994
Earnings before income taxes and gain on sale			
Continuing operations	**$ 132.0**	$ 106.0	$ 137.8
Discontinued operations	**–**	30.2	32.8
Total	**$ 132.0**	$ 136.2	$ 170.6
Income taxes at statutory rate: 1996 and 1995 - 44.6% (1994 - 44.3%)	**$ 58.9**	$ 60.7	$ 75.6
Effect on taxes resulting from:			
Non-deductibility of crown payments and depreciation,			
depletion and amortization	**56.5**	21.1	25.5
Federal resource allowance	**(41.4)**	(21.5)	(25.0)
Utilization of tax losses	**–**	(1.4)	(6.4)
Alberta royalty tax credit	**(1.5)**	(1.5)	(1.9)
Large corporations tax	**5.9**	3.9	3.9
Other	**0.6**	2.1	(1.6)
Income taxes (effective rate: 1996 - 59.8%, 1995 - 46.5%, 1994 - 41.1%)	**$ 79.0**	$ 63.4	$ 70.1

The Company's U.S. subsidiaries have approximately U.S. $10.0 million of tax losses available which can be applied, with certain restrictions, against future taxable income earned in the U.S. The benefit of these tax losses, which will expire between 1999 and 2010, has not been recorded.

The amount of capital assets without a tax base is $577.8 million (1995 - $147.0 million). The amount of tax pools available are $1.5 billion (1995 - $0.7 billion).

note 5

discontinued operations

On August 25, 1995 the Company sold its Forest Products Division for net proceeds of $218.0 million. The Forest Products Division has been reflected in the consolidated financial statements and notes on a discontinued operations basis. A recovery of income tax relating to the Forest Products Division was recognized in 1996.

The results of discontinued operations for the comparative periods are summarized as follows:

	1996	1995	1994
Revenue	**$ –**	$ 135.2	$ 184.0
Operating costs	**–**	83.9	120.8
Depreciation, depletion and amortization	**–**	6.7	9.5
Operating income	**–**	44.6	53.7
Interest and foreign exchange	**–**	14.4	20.9
Income taxes	**–**	13.7	14.5
Net earnings from operations	**–**	16.5	18.3
Gain on sale	**15.0**	37.4	–
Net earnings from discontinued operations	**$ 15.0**	$ 53.9	$ 18.3

note 6

inventories

	1996	1995
Parts, supplies and other	**$ 17.6**	$ 14.6
Product	**19.2**	14.5
	$ 36.8	$ 29.1

note 7

capital assets

		1996			1995	
Property, plant and equipment	**Cost**	**Accumulated DD&A***	**Net**	Cost	Accumulated DD&A*	Net
Exploration and production						
Conventional	**$ 3,881.1**	**$ 1,393.9**	**$ 2,487.2**	$ 2,166.5	$ 904.6	$ 1,261.9
Oil sands	**503.6**	**158.8**	**344.8**	482.4	149.6	332.8
	4,384.7	**1,552.7**	**2,832.0**	2,648.9	1,054.2	1,594.7
Transportation, storage and processing	**967.4**	**248.9**	**718.5**	566.4	223.4	343.0
	$ 5,352.1	**$ 1,801.6**	**$ 3,550.5**	$ 3,215.3	$ 1,277.6	$ 1,937.7

** Depreciation, depletion and amortization*

Transportation, Storage and Processing includes $348.7 million (1995 - nil) related to the Express Pipeline project for construction in progress, which has not been depreciated. Interest was capitalized on the Express Pipeline project in the amount of $5.8 million (1995 - Nil).

At December 31, 1996, $31.9 million (1995 - $19.7 million) of expenditures in international cost centres was excluded from depletable costs.

The prices used in the ceiling test evaluation of the Company's Canadian conventional reserves at December 31, 1996 were as follows:

Natural gas: $2.43 per million British thermal units

Oil and natural gas liquids: $26.85 per barrel

Depreciation, depletion and amortization includes $52.8 million (1995 - $12.9 million; 1994 - $14.6 million) of depletion related to costs which are not deductible for income tax purposes.

note 8
investments and other assets

	1996	1995
Investments	**$ 21.6**	$ 45.4
Deferred pension assets	**–**	7.9
Other	**2.3**	1.4
	$ 23.9	$ 54.7

note 9
long-term debt

	note reference	1996	1995
Canadian dollar debt			
Revolving credit and term loan borrowings	b		
Notes payable		**$ 424.0**	$ 123.1
Unsecured debentures	c		
10.50%, due June 30, 1996		**–**	100.0
9.50%, due February 15, 2000		**25.0**	25.0
7.60%, due March 15, 2001		**50.0**	–
9.85%, due March 15, 2002		**25.0**	25.0
8.15%, due July 31, 2003		**100.0**	100.0
6.60%, due June 30, 2004		**50.0**	–
8.50%, due March 15, 2011		**50.0**	–
U.S. dollar debt			
U.S. unsecured senior notes	d		
6.99%, due August 2001		**54.8**	–
7.34%, due August 2006		**116.4**	–
U.S. revolving credit and term loan borrowings	b		
Term loans		**63.3**	–
		958.5	373.1
Non-recourse long-term debt*			
Term loans	e	**11.3**	12.8
Total long-term debt		**969.8**	385.9
Current portion of long-term debt		**1.5**	1.5
		$ 968.3	$ 384.4

* *Amounts stated are AEC's proportionate share of debt of other entities.*

(a) mandatory five-year debt repayments

The minimum annual repayments of long-term debt required over each of the next five years are as follows:

1997	1998	1999	2000	2001
$ 1.5	$ 1.5	$ 1.5	$ 40.2	$ 92.6

(b) revolving credit and term loan borrowings

In 1996, the Company increased the number of its revolving credit and term loan facilities to five by adding a new facility for $375 million with a syndicate of banks. The five facilities, totaling $875 million, are fully revolving for 364-day periods with provision for extensions at the option of the lenders and upon notice from the Company. If not extended, two facilities convert to non-revolving reducing loans for terms of 6.5 years, one for a term of seven years and two for terms of eight years.

All five loan facilities are unsecured and available in Canadian and/or U.S. dollar equivalent amounts; they currently bear interest either at the lenders' rates for Canadian prime commercial or U.S. base rate loans, or at Bankers' Acceptance rates, or at LIBOR plus applicable margins.

note 9
long-term debt
continued

Alenco Inc., a subsidiary of the Company, has a U.S. $50 million unsecured revolving credit and term loan facility, of which U.S. $46.2 million was utilized at year-end. This facility is guaranteed by the Company and is fully revolving for 364-day periods with provision for extensions at the option of the lender following notice from Alenco Inc. If not extended, the facility converts to a non-revolving reducing facility to be repayable in full by the end of eight years. Loans are available in U.S. dollars and currently bear interest either at the lender's rates for U.S. prime rate or U.S. base rate loans, or at U.S. Bankers' Acceptance rates, or at LIBOR plus applicable margins.

AEC Oil Sands Ltd., a subsidiary of the Company, has a $25 million unsecured revolving credit and term loan facility, of which $12.2 million was utilized at year-end. The facility is fully revolving for 364-day periods with provision for extensions at the option of the lender following notice from AEC Oil Sands Ltd. If not extended, the facility converts to a non-revolving reducing facility to be repayable in full by the end of five years. Loans are available in Canadian dollars and currently bear interest either at the lender's rates for prime rate loans, or at Bankers' Acceptance rates plus applicable margins.

Notes payable consist of Bankers' Acceptances and Commercial Paper maturing at various dates with a weighted average interest rate of 3.56 percent (1995 - 6.25 percent). Notes payable shown as long-term debt represent amounts which are not expected to require the use of working capital during the year and are fully supported by the availability of term loans under the revolving credit facilities.

(c) unsecured debentures

The unsecured 10.50 percent debentures matured June 30, 1996. The repayment of this issue at maturity was made using other long-term debt. In 1996, under its medium term note program, the Company issued $150 million in unsecured debentures.

(d) U.S. unsecured senior notes

In 1996 the Company issued unsecured senior notes in the amount of U.S. $125 million through a private placement. The notes were issued in two tranches. One is in the amount of U.S. $40 million bearing interest payable quarterly at 6.99 percent. Terms of this tranche require principal repayments of U.S. $10 million in August, 2000 and U.S. $30 million at maturity in August, 2001. The second tranche in the amount of U.S. $85 million bears interest payable quarterly at 7.34 percent and requires principal repayments of U.S. $28.3 million in August, 2004 and August, 2005 and U.S. $28.4 million at maturity in August, 2006.

(e) term loans

AEC has a 49.995 percent interest in Pan-Alberta Resources Inc. ("PARI") which has a non-recourse secured term credit facility which finances its investment in its natural gas liquids extraction plant joint venture. The term credit facility is secured by PARI's interest in the joint venture assets and certain related agreements. The debt is repayable over the initial term of the related joint venture contracts in equal monthly installments totaling $1.5 million (49.995 percent) per year.

Canadian dollar loans bear interest at the lenders' rates for Canadian prime commercial loans or at Bankers' Acceptance rates plus applicable margins.

At year-end, outstanding obligations under the facility included Bankers' Acceptances (Canadian) and Canadian dollar loans of $11.3 million (49.995 percent) ($12.8 million in 1995).

note 10
other liabilities

	1996	1995
Future removal and site restoration costs	**$ 42.6**	$ 26.1
Long-term liabilities related to Syncrude	**6.6**	11.8
Deferred acquisition payable	**5.0**	5.0
Other	**8.1**	4.1
	$ 62.3	$ 47.0

note 11
share capital

Authorized	
20,000,000	First preferred shares
20,000,000	Second preferred shares
20,000,000	Third preferred shares
Unlimited	Common shares
5,000,000	Non-voting shares

	1996		1995	
	Number of Shares	**Amount**	Number of Shares	Amount
Common shares				
Balance, beginning of year	**75,539,019**	**$ 692.3**	74,464,114	$ 673.3
Issued on acquisition* (note 2)	**23,624,817**	**540.4**	–	–
Issued for cash	**11,250,000**	**279.7**	–	–
Employee share option plan	**910,764**	**15.5**	324,211	4.7
Shareholder investment plan	**162,501**	**4.1**	750,694	14.3
Balance, end of year	**111,487,101**	**$ 1,532.0**	75,539,019	$ 692.3

* *includes 471,284 common shares which have not been issued at December 31, 1996*

The Employee Share Option Plan provides for granting to employees of the Company and its subsidiaries options to purchase Common Shares of the Company. Each option granted under the plan expires after seven years and may be exercised in cumulative annual amounts of 25 percent on or after each of the first four anniversary dates of the grant.

At December 31, 1996, employee share options, exerciseable between 1997 and 2003 were outstanding to purchase 4,684,050 (1995 - 3,093,002) Common Shares at prices ranging from $12.04 to $31.35 per share.

	1996	1995
Common shares under option, beginning of year	**3,093,002**	2,469,079
Share options granted	**2,986,250**	1,151,200
Share options exercised	**(910,764)**	(324,211)
Share options cancelled	**(484,438)**	(203,066)
Common shares under option, end of year	**4,684,050**	3,093,002

The number of Common Shares reserved for issuance under the Employee Share Option Plan was 8,435,924 at December 31, 1996 (3,115,743 at December 31, 1995).

note 12
financial instruments

The Company's financial instruments that are included in the consolidated balance sheet are comprised of cash and short-term investments, accounts receivable, and all current liabilities and long-term borrowings.

(a) oil and gas price hedging

During 1996, 24,500 barrels of oil per day was subject to fixed price swap agreements at $23.61 per barrel resulting in a reduction in revenue totaling $58.2 million. In addition, 40 million cubic feet per day of natural gas was subject to fixed price swap agreements at U.S. $1.32 per thousand cubic feet resulting in a $6.1 million reduction in revenue.

At December 31, 1996 there were no oil fixed price swap agreements in effect. A total of 8.3 million cubic feet per day of gas is subject to fixed price swap arrangements for settlement in 1997 at an average swap price of U.S. $2.26 per thousand cubic feet.

note 12
financial instruments
continued

(b) fair values of financial assets and liabilities

The fair values of financial instruments that are included in the consolidated balance sheet, other than long-term borrowings, approximate their carrying amount due to the short-term maturity of those instruments.

The estimated fair values of long-term borrowings have been determined based on market information where available, or by discounting future payments of interest and principal at estimated interest rates that would be available to the Company at December 31, 1996.

	1996		1995	
	Balance Sheet Amount	**Fair Value**	Balance Sheet Amount	Fair Value
Long-term debt	**$ 968.3**	**$ 1,003.4**	$ 384.4	$ 396.5

(c) credit risk

A substantial portion of the Company's accounts receivable are with customers in the oil and gas industry and are subject to normal industry credit risks. All natural gas swap agreements are with major financial institutions in Canada and the United States.

(d) interest rate risk

At December 31, 1996, the increase or decrease in net earnings for each one percent change in interest rates on floating rate debt amounts to $2.9 million.

note 13
supplementary information

(a) investments proportionately consolidated

The Company conducts a substantial portion of its oil and gas activity through unincorporated joint ventures which are accounted for using the proportionate consolidation method. In addition, the 50 percent owned Express Pipeline (including Express Pipeline Ltd., Express Pipeline Partnership and Platte Pipe Line Company) is also accounted for using the proportionate consolidation method. Included in the Company's accounts are the following amounts related to Express Pipeline:

	1996
Assets	**$ 359.5**
Liabilities	**$ 43.6**
Investing activities	**$ (348.7)**

(b) pension plans

The Company has both a defined benefit pension plan and a defined contribution plan which cover substantially all employees. The defined benefit pension plan provides pension benefits upon retirement based on length of service and final average earnings. Defined contribution benefits are determined by the value of contributions and the return on investment of these contributions.

The cost of pension benefits earned by employees is determined using the projected unit credit method and is expensed as services are rendered. This cost is actuarially determined and reflects management's best estimate of the pension plan's expected investment yields and the expected salary escalation, mortality rates, termination dates and retirement ages of pension plan members. The plan is funded as actuarially determined in accordance with regulatory requirements through contributions to a trust fund. The costs of defined contribution pension benefits are based on a percentage of salary.

note 13
supplementary information
continued

The cumulative difference between the amounts funded and expensed is reflected as a deferred asset in the consolidated balance sheet.

At December 31, 1996, the market value of defined benefit pension fund assets was $60.2 million (1995 - $54.2 million) and the accrued pension liability, as estimated by the Company's actuaries, was $54.0 million (1995 - $38.1 million).

In addition, one of the Company's unincorporated joint ventures has a defined benefit pension plan. At December 31, 1996, the market value of the Company's share of pension fund assets was $70.6 million (1995 - $61.5 million) and the Company's share of accrued pension liability, as estimated by the joint venture's actuaries, was $72.0 million (1995 - $66.3 million).

(c) related party transactions

During the year the Company sold approximately $7.3 million (1995 - $9.7 million) of natural gas to affiliates at market prices, $4.8 million of which is included in accounts receivable at year-end (1995 - nil).

(d) net change in non-cash working capital

	1996	1995	1994
Operating activities			
Continuing operations			
Accounts receivable and accrued revenue	**$ (29.9)**	$ (6.1)	$ (35.2)
Inventories	**(7.7)**	5.7	(12.1)
Accounts payable and accrued liabilities	**(13.2)**	31.7	(8.7)
	$ (50.8)	$ 31.3	$ (56.0)
Discontinued operations			
Accounts receivable and accrued revenue	**$ –**	$ 27.1	$ (7.6)
Inventories	**–**	32.7	(6.6)
Accounts payable and accrued liabilities	**–**	(22.7)	4.9
	$ –	$ 37.1	$ (9.3)
Investing activities			
Accounts payable and accrued liabilities	**$ 80.7**	$ (13.5)	$ 7.9

note 14
united states accounting principles and reporting

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. They differ from those generally accepted in the United States in the following respects:

(a) full cost accounting

Under Canadian Generally Accepted Accounting Principles ("GAAP"), a ceiling test is applied to ensure that capitalized costs do not exceed the sum of estimated undiscounted, unescalated future net revenues from proven reserves less the cost incurred or estimated to develop those reserves, related production, interest and general and administration costs, and an estimate for restoration costs and applicable taxes.

Under the Full Cost method of accounting in the United States, costs accumulated in each cost centre are limited to an amount equal to the present value, discounted at 10 percent, of the estimated future net operating revenues from proven reserves, net of restoration costs and income taxes.

(b) income taxes

Under Canadian GAAP the Company provides for potential future taxes using the deferred credit method under which tax provisions are established using tax rates and regulations applicable in the year the provision is recorded. These remain unchanged despite subsequent changes in rates and regulations.

In the United States, Statement of Financial Accounting Standards No. 109 (FAS 109), "Accounting for Income Taxes," requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, FAS 109 generally considers all expected events including enacted

note 14
united states accounting principles and reporting
continued

changes in laws or rates.

(c) foreign currency translation

Long-term debt in foreign currencies was translated at the rate of exchange in effect at the end of the year. Unrealized exchange gains and losses arising on translation were deferred and amortized over the remaining terms of the debt. United States generally accepted accounting principles require that such gains and losses be reflected in the period in which they arise.

(d) earnings per share

U.S. GAAP requires the inclusion of Common Stock Equivalents in the calculation of primary earnings per share. In 1996 these would total 4,684,050 shares (1995 - 3,093,002 shares; 1994 - 2,469,079 shares).

(e) United States earnings

If the consolidated financial statements had been prepared in accordance with generally accepted accounting principles in the United States the following adjustments would be required:

	1996	1995	1994
Net earnings as shown	**$ 68.0**	$ 110.2	$100.5
Impact of U.S. accounting principles:			
Foreign exchange	**–**	–	17.2
Income taxes on foreign exchange	**–**	–	(7.6)
Income taxes - FAS 109	**6.1**	(2.2)	(25.4)
Net earnings according to U.S. GAAP	**$ 74.1**	$108.0	$ 84.7
Earnings per share			
Basic	**$ 0.71**	$ 1.44	$ 1.14
Fully diluted	**$ 0.71**	$ 1.43	$ 1.14

The adjustments under U.S. GAAP would result in changes to the consolidated balance sheet of the Company as follows:

	As at December 31, 1996		As at December 31, 1995	
	As Reported	**U.S. GAAP**	As Reported	U.S. GAAP
Assets				
Current assets	**$ 317.8**	**$ 317.8**	$ 226.1	$ 226.1
Capital assets	**3,550.5**	**3,898.2**	1,937.7	1,937.7
Investments and other assets	**23.9**	**23.9**	54.7	54.7
	$ 3,892.2	**$ 4,239.9**	$ 2,218.5	$ 2,218.5
Liabilities and Shareholders' Equity				
Current liabilities	**$ 312.7**	**$ 312.7**	$ 203.2	$ 203.2
Long-term debt	**968.3**	**968.3**	384.4	384.4
Other liabilities	**62.3**	**62.3**	47.0	47.0
Deferred income taxes	**518.9**	**894.9**	423.9	456.4
Shareholders' equity	**2,030.0**	**2,001.7**	1,160.0	1,127.5
	$ 3,892.2	**$ 4,239.9**	$ 2,218.5	$ 2,218.5

(f) statement of changes in financial position

Under Canadian GAAP acquisitions are reported in the statement of changes in financial position including non-cash transactions. These non-cash transactions, which include the exchange of shares ($540.4 million) and debt assumed ($215.5 million) as a part of the Conwest acquisition (note 2) in 1996, would be excluded from the U.S. GAAP statement of cash flows.

The adjustments under U.S. GAAP would result in changes to the consolidated statement of changes in financial position of the Company as follows:

note 14
united states accounting principles and reporting
continued

	1996
Investing activities, as reported	**$ (1,891.6)**
Non-cash items	**755.9**
Investing activities, U.S. GAAP	**$ (1,135.7)**
Financing activities, as reported	**1,543.0**
Non-cash items	**755.9**
Financing activities, U.S. GAAP	**$ 787.1**

note 15
segmented information

	Exploration & Production			Transportation, Storage & Processing			Total		
	1996	1995	1994	**1996**	1995	1994	**1996**	1995	1994
Revenue	**$ 1,068.2**	$ 643.6	$ 622.8	**$ 183.2**	$ 149.7	$ 166.7	**$ 1,251.4**	$ 793.3	$ 789.5
Royalties	**135.6**	63.5	52.1	**–**	–	–	**135.6**	63.5	52.1
Revenue, net of royalties	**932.6**	580.1	570.7	**183.2**	149.7	166.7	**1,115.8**	729.8	737.4
Operating costs	**276.5**	208.5	208.3	**95.6**	70.8	80.0	**372.1**	279.3	288.3
Cost of gas purchased	**246.4**	126.9	83.0	**–**	–	–	**246.4**	126.9	83.0
Operating cash flow	**409.7**	244.7	279.4	**87.6**	78.9	86.7	**497.3**	323.6	366.1
DD&A	**258.3**	131.6	126.7	**22.4**	21.1	19.3	**280.7**	152.7	146.0
Operating income	**151.4**	113.1	152.7	**65.2**	57.8	67.4	**216.6**	170.9	220.1
Equity earnings	**–**	–	–	**6.3**	3.2	6.0	**6.3**	3.2	6.0
Divisional income	**151.4**	113.1	152.7	**71.5**	61.0	73.4	**222.9**	174.1	226.1
Less:									
General & administrative	**28.1**	29.1	31.1	**4.3**	6.1	2.3	**32.4**	35.2	33.4
Corporate DD&A	**4.3**	2.3	5.8	**0.8**	0.8	0.4	**5.1**	3.1	6.2
Interest & foreign exchange	**30.3**	9.7	35.1	**23.1**	20.1	13.6	**53.4**	29.8	48.7
Income taxes	**60.9**	34.4	32.2	**18.1**	15.3	23.4	**79.0**	49.7	55.6
Net earnings - continuing operations	**$ 27.8**	$ 37.6	$ 48.5	**$ 25.2**	$ 18.7	$ 33.7	**53.0**	56.3	82.2
Net earnings - discontinued operations							**15.0**	53.9	18.3
Net earnings							**$ 68.0**	$ 110.2	$ 100.5
Identifiable assets	**$ 3,097.6**	$ 1,796.1	$ 1,657.1	**$ 794.6**	$ 422.4	$ 429.7	**$ 3,892.2**	$ 2,218.5	$ 2,086.8
Additions to capital assets and investments	**$ 513.3**	$ 239.9	$ 283.5	**$ 400.2**	$ 32.6	$ 58.6	**$ 913.5**	$ 272.5	$ 342.1

"Exploration and Production" includes conventional oil and gas production and marketing, International and Syncrude.

"Transportation, Storage and Processing" includes pipelines, gas storage, natural gas processing and to June 30, 1996, the Syncrude utility operations.

Restated to reflect results from Forest Products as discontinued operations (note 5).

Corporate assets have been allocated to the divisions.

note 16
subsequent event

On February 13, 1997, AEC Pipelines, L.P. filed a preliminary prospectus in Canada related to the sale of limited partnership units. AEC Pipelines, L.P., is a limited partnership which was organized by the Company to acquire and hold all of the operating crude oil and natural gas liquids pipelines presently owned directly and indirectly by the Company and to hold investments in AEC Express Holdings Ltd., the principal asset of which is a 50 percent interest in the Express Pipeline System. It is anticipated the Company will have a 70 percent interest in the limited partnership and the results will be consolidated.

Alberta Energy Company Ltd.

supplemental information

consolidated financial information (unaudited)

financial statistics

	1996								
	year	Q4	Q3	Q2	Q1	1995	1994	1993	1992
Net earnings ($ millions)	68.0	23.3	12.8	18.6	13.3	110.2	100.5	91.6	42.2
$ per share									
Basic	0.65	0.21	0.12	0.19	0.13	1.47	1.36	1.23	0.53
Fully diluted	0.65	0.21	0.12	0.19	0.13	1.44	1.34	1.21	0.53
Cash flow from operations									
($ millions)	411.9	132.0	102.2	77.2	100.5	270.7	294.8	251.4	219.9
$ per share									
Basic	3.93	1.21	0.93	0.77	1.02	3.61	4.07	3.52	3.11
Fully diluted	3.82	1.17	0.91	0.74	1.00	3.51	3.88	3.33	2.98
Shares									
Common shares outstanding									
(millions)	111.5	111.5	110.9	99.4	98.9	75.5	74.5	70.0	69.4
Average common shares									
outstanding (millions)	104.9	104.9	102.8	99.3	99.0	75.0	71.7	69.7	68.8
Price range ($ per share)									
TSE									
High	33.25	33.25	27.25	27.25	26.25	23.13	22.75	23.63	17.00
Low	21.75	26.45	25.00	24.90	21.75	16.38	17.50	15.50	9.75
Close	32.70	32.70	27.10	25.75	25.88	21.88	17.88	18.50	16.25
NYSE ($US)									
High	24.13	24.13	19.88	20.00	19.25	16.75	–	–	–
Low	16.00	19.63	18.00	18.25	16.00	15.00	–	–	–
Close	24.00	24.00	19.88	18.75	18.88	16.00	–	–	–
Share volume traded (millions)	71.7	18.1	14.3	13.5	25.8	42.3	48.5	26.1	16.6
Ratios									
Debt-to-equity									
Corporate	32:68					25:75	35:65	35:65	38:62
Exploration and production	16:84					13:87	21:79	21:79	26:74
Transportation, storage									
and processing	89:11					64:36	64:36	64:36	63:37
Net debt-to-cash flow									
Exploration and production	1.0x					0.8x	1.2x	1.2x	1.7x
Interest coverage	3.4x					4.8x	4.8x	5.3x	2.1x
Return on equity	3.7%					9.9%	10.1%	9.9%	4.5%
Return on assets	2.7%					5.9%	6.1%	5.1%	3.2%
Dividend ($ per common share)	0.40					0.40	0.40	0.35	0.35

supplemental information

consolidated financial information (unaudited)

divisional consolidated balance sheet

$ millions	exploration & production 1996	exploration & production 1995	transportation, storage & processing 1996	transportation, storage & processing 1995	total 1996	total 1995
Assets						
Current assets	**$ 259.1**	$ 194.2	**$ 58.7**	$ 31.9	**$ 317.8**	$ 226.1
Capital assets	**2,832.0**	1,594.7	**718.5**	343.0	**3,550.5**	1,937.7
Investments and other assets	**6.5**	7.2	**17.4**	47.5	**23.9**	54.7
Total	**$ 3,097.6**	$ 1,796.1	**$ 794.6**	$ 422.4	**$ 3,892.2**	$ 2,218.5
Liabilities						
Current liabilities	**$ 240.9**	$ 179.5	**$ 71.8**	$ 23.7	**$ 312.7**	$ 203.2
Long-term debt	**367.0**	153.5	**601.3**	230.9	**968.3**	384.4
Other liabilities	**60.6**	45.4	**1.7**	1.6	**62.3**	47.0
Deferred income taxes	**471.9**	390.4	**47.0**	33.5	**518.9**	423.9
	1,140.4	768.8	**721.8**	289.7	**1,862.2**	1,058.5
Capital employed	**1,957.2**	1,027.3	**72.8**	132.7	**2,030.0**	1,160.0
Total	**$ 3,097.6**	$ 1,796.1	**$ 794.6**	$ 422.4	**$ 3,892.2**	$ 2,218.5

Note: Includes allocation of corporate assets and liabilities

capital investment

$ millions	1996	1995	1994	1993	1992
Conventional oil and gas					
Conwest acquisition	**$ 1,120.9**	$ –	$ –	$ –	$ –
Western Canada	**444.3**	193.0	237.4	140.3	63.5
International	**24.5**	16.1	22.6	–	–
Other	**3.1**	–	–	–	–
Syncrude	**29.4**	28.1	18.9	36.0	8.3
Transportation, storage and processing					
Express Pipeline project	**348.7**	–	–	–	–
Other	**49.2**	30.5	56.3	68.3	7.0
Forest Products	**–**	31.1	29.6	8.6	8.7
Other	**8.8**	3.3	4.6	7.4	4.0
Total capital investment	**2,028.9**	302.1	369.4	260.6	91.5
Investments	**5.5**	1.5	2.3	1.0	8.4
Total capital and investments	**$ 2,034.4**	$ 303.6	$ 371.7	$ 261.6	$ 99.9

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Calgary, Alberta

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[3] *Human Resources and Compensation Committee*
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[5] *Pension Committee*

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Director, Corporate Relations & Corporate Secretary
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Storage & Hub Services
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Manager

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Transfer Agents and Registrars

Common Shares
The R-M Trust Company
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ChaseMellon Shareholder Services, L.L.C.
New York

Trustee and Registrar

The R-M Trust Company
8.15% Debentures
Calgary, Vancouver, Regina, Winnipeg, Toronto, Montreal, Halifax
Medium Term Note Debentures
Calgary, Toronto

Investors are encouraged to contact The R-M Trust Company for information regarding their security holdings. They can be reached via the Answerline (416) 813-4600 or toll-free throughout North America at 1-800-387-0825.

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www.rmtrust.ca (web site)

Auditors (Financial)

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Chartered Accountants
Calgary, Alberta

Auditors (Oil & Gas Reserves)

McDaniel & Associates Consultants Ltd.
Calgary, Alberta
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Stock Exchanges

Common Shares are listed on the Toronto, Montreal, Vancouver and Alberta stock exchanges *(symbol "AEC")* and on the New York Stock Exchange *(symbol "AOG")*.

Annual Information Form (Form 40-F)

AEC's Annual Information Form *(AIF)* is filed with securities regulators in Canada and the United States. Under the Multi-Jurisdictional Disclosure System *(MJDS)* introduced in 1991, AEC's AIF is filed as Form 40-F with the U.S. regulatory authority, the Securities and Exchange Commission.

Major Operating Subsidiaries, Affiliates and Partnerships

100%	A.E.C. Argentina S.A.
100%	AEC Alliance Pipeline Ltd.
100%	AEC Energy Resources Ltd.
100%	AEC Oil & Gas Partnership
100%	AEC Oil Sands Ltd.
100%	AEC Pipelines, L.P.
100%	AEC West Ltd.
100%	AER (Thailand) Ltd.
100%	Alberta Oil Sands Pipeline Ltd.
100%	Alenco Alliance Pipeline Inc.
100%	Alenco Gas Services Inc.
100%	Alenco Inc.
100%	Alenco Iroquois Pipelines Inc.
100%	Alenco Oil & Gas [N.D] Inc.
100%	Alenco Pipelines Inc.
100%	Alenco Resources Inc.
50%	Express Pipeline System
6%	Iroquois Gas Transmission System, L.P.
49.9%	Pan-Alberta Resources Inc. *(40% voting)*
50%	Platte Pipe Line Company
100%	Stealth Resources Limited
100%	Wild Goose Storage Inc.

Major Joint Ventures

40%	Empress Straddle Plant
33.3%	Ethane Gathering System
13.75%	Syncrude 10% Alberta Energy Company Ltd. 3.75% AEC Oil Sands Ltd. *(75% of AEC Oil Sands Limited Partnership's 5%)*

Annual and Special Meeting of Shareholders

Wednesday, April 9, 1997
at 3:00 P.M. local time
Westin Hotel
320 - 4 Avenue S.W.
Calgary, Alberta
Shareholders of Alberta Energy Company Ltd. are encouraged to attend. Those unable to do so are asked to sign and return the form of proxy mailed with this report.

Additional Information

For additional investor relations information please contact Brian C. Ferguson, Director, Corporate Relations and Corporate Secretary, at the above Registered Office address.

Internet Address

http://www.aec.ca

Abbreviations

bbl	*barrel(s)*
bbl/d	*barrel(s) per day*
Bcf	*billion cubic feet*
Bcf/d	*billion cubic feet per day*
Bcfe	*billion cubic feet equivalent*
BOE	*barrel of oil equivalent*
btu	*British thermal unit*
Mbbl/d	*thousand barrels per day*
Mcf	*thousand cubic feet*
Mcf/d	*thousand cubic feet per day*
Mcfe	*thousand cubic feet equivalent*
MMbbl	*million barrels*
MMbtu	*million British thermal units*
MMcf	*million cubic feet*
MMcf/d	*million cubic feet per day*
NGLs	*natural gas liquids*
TCF	*trillion cubic feet*

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AEC

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